



**ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2019**

KOUGA LOCAL MUNICIPALITY
Annual Financial Statements for the year ended 30 June 2019

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GENERAL INFORMATION

MEMBERS OF THE EXECUTIVE MAYORAL COMMITTEE AS AT 30 JUNE 2019

H Hendricks	Executive Mayor
F Campher	Infrastructure and Engineering
B Reeder	Planning and Development
B Williams	Finance
B Dhludhlu	Corporate Services
D Benson	Community Services
F Baxter	Local Economic Development and Tourism

AUDITOR-GENERAL

69 Frere Road, Vincent, East London, 5247
Eastern Cape

BANKERS

First National Bank
Private Bag X5
Jeffreys Bay, 6330

REGISTERED OFFICE

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Jeffreys Bay

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6330

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E-mail: registry@ec108.org.za

MUNICIPAL MANAGER

Mr. C. du Plessis

CHIEF FINANCIAL OFFICER

Mr. S Thys

GENERAL INFORMATION (continued)

LEGAL FORM

Category B Municipality which operates in accordance with Chapter 7 of the Constitution of South Africa.

The Objects of Local Government are:

- to provide democratic and accountable government for local communities;
- to ensure the provision of services to communities in a sustainable manner;
- to promote social and economic development;
- to promote a safe and healthy environment; and
- to encourage the involvement of communities and community organisations in the matters of local government

The Municipality must strive, within its financial and administrative capacity, to achieve the objects as set out above.

JURISDICTION

Greater Kouga area which includes:

Humansdorp
St Francis Bay, Cape St Francis, Oyster Bay
Hankey, Jeffreys Bay, Loerie
Patensie, Thornhill

MEMBERS OF THE KOUGA LOCAL MUNICIPALITY

WARD	COUNCILLOR	
1	Mayoni	Z
2	Meleni	T
3	Gertenbach	W
4	Campher	F
5	Coenraad	W
6	Vumazonke	V
7	Februarie	E
8	Vorster	L
9	Jujwana	S
10	Mabukane	A
11	Bornman	H
12	Rheeder	B
13	Peters	M
14	Makasi	S
15	Hendricks	H
Proportional	August	C
Proportional	Oliphant	P
Proportional	Jantjies	R
Proportional	Dayimani	M
Proportional	Louw	F
Proportional	Matroos	C
Proportional	Nkomo	A
Proportional	Nkwalase	P
Proportional	Botha	N
Proportional	Dhludhlu	B
Proportional	Benson	D
Proportional	Jantjes	T
Proportional	Williams	B
Proportional	Baxter	F

APPROVAL OF FINANCIAL STATEMENTS

I am responsible for the preparation of these annual financial statements, in accordance with Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister for Cooperative Governance and Traditional Affairs' determination in accordance with this Act.



Mr. C du Plessis
Municipal Manager

31 AUGUST 2019

Date

KOUGA LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2019

		Actual	
	Note	2019 R	2018 Restated R
ASSETS			
Current Assets		352,311,839	199,266,865
Inventories	2	9,249,357	6,666,181
Receivables from Exchange Transactions	3	58,261,649	48,834,181
Receivables from Non-exchange Transactions	4	31,122,849	26,465,782
VAT Receivable	5	39,212,651	22,713,472
Cash and Cash Equivalents	6	214,227,967	94,315,125
Operating Lease Receivables	7	234,365	269,124
Current Portion of Long-term Receivables	8	3,000	3,000
Non-Current Assets		2,286,780,700	2,269,308,362
Property, Plant and Equipment	9	2,018,797,106	2,001,263,850
Intangible Assets	10	243,850	301,768
Investment Property	11	267,726,744	267,726,744
Long-term Receivables	12	13,000	16,000
Total Assets		2,639,092,538	2,468,575,227
LIABILITIES			
Current Liabilities		243,506,767	182,157,221
Consumer Deposits	13	17,378,122	15,240,869
Provisions	14	29,648,800	24,504,611
Payables from Exchange Transactions	15	83,967,757	126,526,199
Unspent Conditional Grants and Receipts	16	103,445,548	6,941,508
Current Portion of Long-term Liabilities	17	9,066,539	8,944,035
Non-Current Liabilities		179,799,230	185,581,329
Long-term Liabilities	17	16,354,409	23,600,396
Employee Benefit Liabilities	18	94,807,417	96,300,999
Non-current Provisions	19	68,637,404	65,679,934
Total Liabilities		423,305,997	367,738,550
Total Assets and Liabilities		2,215,786,541	2,100,836,677
NET ASSETS		2,215,786,541	2,100,836,677
Accumulated Surplus	20	2,215,786,541	2,100,836,677
Total Net Assets		2,215,786,541	2,100,836,677

KOUGA LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2019

		Actual	
	Note	2019 R	2018 Restated R
REVENUE			
Revenue from Non-exchange Transactions		439,683,637	356,973,117
Property Rates	21	184,331,308	160,619,768
Fines, Penalties and Forfeits	22	21,333,783	34,832,471
Licences and Permits	23	15,792,788	13,546,854
Transfers and Subsidies	24	216,899,825	146,848,088
Interest, Dividends and Rent on Land Earned	28	1,325,934	1,125,936
Revenue from Exchange Transactions		496,235,023	385,478,058
Service Charges	25	413,280,935	360,352,117
Sales of Goods and Rendering of Services	26	6,171,011	8,834,374
Rental from Fixed Assets	27	609,214	614,198
Interest, Dividends and Rent on Land Earned	28	18,908,767	14,409,988
Operational Revenue	29	57,265,097	1,267,381
Total Revenue		935,918,661	742,451,175
EXPENDITURE			
		820,968,796	745,123,575
Employee Related Costs	30	274,158,400	245,776,991
Remuneration of Councillors	31	12,202,166	12,065,883
Depreciation and Amortisation	32	75,855,819	73,617,801
Impairment Losses	33	45,764,042	61,478,776
Interest, Dividends and Rent on Land	34	6,637,780	14,324,358
Bulk Purchases	35	234,527,407	217,588,330
Contracted Services	36	62,693,690	35,492,455
Inventory Consumed	37	27,381,399	20,594,170
Transfers and Subsidies Paid	38	-	372,340
Operating Leases	39	9,510,378	2,725,534
Operational Costs	40	71,487,261	59,495,162
Loss on Disposal of Property, Plant and Equipment	41	750,454	1,591,775
Total Expenditure		820,968,796	745,123,575
SURPLUS / (DEFICIT) FOR THE YEAR		114,949,864	(2,672,400)
Refer to Budget Statement for explanation of budget variances			

KOUGA LOCAL MUNICIPALITY
STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2019

	Accumulated Surplus/(Deficit)	Total Net Assets
	R	R
2018		
Balance at 30 June 2017	2,102,468,664	2,102,468,664
Correction of Error (Note 42)	520,201	520,201
Restated Balance	2,102,988,865	2,102,988,864
Reversal of Correction of Error previously disclosed on AFS	520,204	520,204
Surplus / (Deficit) for the year	(2,672,400)	(2,672,400)
<i>Prior year Audited Surplus</i>	(1,978,303)	(1,978,303)
<i>Restatement of Revenue</i>	(589,561)	(589,561)
<i>Restatement of Expenditure</i>	104,536	104,536
Rounding differences	9	9
Balance at 30 June 2018	2,100,836,678	2,100,836,677
2019	-	
Correction of Error (Note 42)	-	-
Restated Balance	2,100,836,678	2,100,836,677
Surplus / (Deficit) for the year	114,949,864	114,949,864
Balance at 30 June 2019	2,215,786,541	2,215,786,541
		-

Details on the movement of the Funds and Reserves are set out in Note 20.

KOUGA LOCAL MUNICIPALITY
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2019

		Actual	
	Note	2019 R	2018 Restated R
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts		970,393,158	669,995,089
Property Rates	21	183,999,750	158,367,861
Transfers and Subsidies	24	313,403,865	147,382,843
Service Charges	25	372,505,778	331,098,472
External Interest and Dividends Received	28	11,946,693	8,751,748
Other Receipts	29	88,537,072	24,394,165
Payments		(748,187,947)	(596,543,408)
Employee Related Costs	30	(272,131,086)	(234,182,570)
Remuneration of Councillors	31	(12,202,166)	(12,065,883)
External Interest and Dividends Paid	34	(3,020,625)	(3,775,682)
Suppliers Paid	36	(369,242,373)	(277,421,744)
Other Payments	40	(75,092,518)	(57,672,872)
VAT Receivable / Payable	5	(16,499,179)	(11,424,658)
NET CASH FLOWS FROM OPERATING ACTIVITIES		222,205,210	73,451,681
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment	9	(94,313,177)	(55,702,305)
Purchase of Investment Property	11	-	-
Proceeds on Disposal of Property, Plant and Equipment	41	(858,708)	885,959
Decrease / (Increase) in Long-term Receivables	12	3,000	48,751
NET CASH FLOWS FROM INVESTING ACTIVITIES		(95,168,885)	(54,767,595)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of Borrowings	17	(7,123,483)	(8,622,667)
NET CASH FLOWS FROM FINANCING ACTIVITIES		(7,123,483)	(8,622,667)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		119,912,842	10,061,419
Cash and Cash Equivalents at Beginning of Period		94,315,125	84,253,706
Cash and Cash Equivalents at End of Period	6	214,227,967	94,315,125

KOUGA LOCAL MUNICIPALITY
APPROPRIATION STATEMENT FOR THE YEAR ENDED 30 JUNE 2019

RECONCILIATION OF BUDGETED FINANCIAL POSITION WITH THE STATEMENT OF FINANCIAL POSITION:

Description	Original Budget	Budget Adjustments	Adjustment Budget	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R	R	R	R	R	R	R
FINANCIAL POSITION								
Current Assets								
Inventories	4,513,498	2,152,683	6,666,181	6,666,181	9,249,357	2,583,176	138.75	204.93
Receivables from Exchange Transactions	42,559,000	(176,976)	42,382,024	42,382,024	58,261,649	15,879,625	137.47	136.90
Receivables from Non-exchange Transactions	31,184,000	(321,441)	30,862,559	30,862,559	31,122,849	260,290	100.84	99.80
VAT Receivable	-	-	-	-	39,212,651	39,212,651	0.00	0.00
Cash and Cash Equivalents	53,560,788	31,146,231	84,707,019	84,707,019	214,227,967	129,520,948	252.90	399.97
Operating Lease Receivables	-	-	-	-	234,365	234,365	0.00	0.00
Current Portion of Long-term Receivables	3,000	-	3,000	3,000	3,000	-	100.00	100.00
Non-Current Assets								
Property, Plant and Equipment	2,157,628,176	32,314,890	2,189,943,066	2,189,943,066	2,018,797,106	(171,145,960)	92.18	93.57
Intangible Assets	62,225	239,543	301,768	301,768	243,850	(57,918)	80.81	391.88
Investment Property	285,199,244	(587,000)	284,612,244	284,612,244	267,726,744	(16,885,500)	94.07	93.87
Long-term Receivables	64,751	(48,751)	16,000	16,000	13,000	(3,000)	81.25	20.08
Total Assets	2,574,774,682	64,719,179	2,639,493,861	2,639,493,861	2,639,092,538	(401,322)	99.98	102.50
Current Liabilities								
Consumer Deposits	10,478,553	4,762,316	15,240,869	15,240,869	17,378,122	2,137,254	114.02	165.84
Provisions	23,097,154	1,407,456	24,504,611	24,504,611	29,648,800	5,144,190	120.99	128.37
Payables from Exchange Transactions	87,054,449	39,456,759	126,511,207	126,511,207	83,967,757	(42,543,450)	66.37	96.45
Payables from Non-exchange Transactions	-	-	-	-	-	-	0.00	0.00
Unspent Conditional Grants and Receipts	-	-	-	-	103,445,548	103,445,548	0.00	0.00
Bank Overdraft	-	-	-	-	-	-	0.00	0.00
Current Portion of Long-term Liabilities	13,246,996	(4,302,961)	8,944,035	8,944,035	9,066,539	122,504	101.37	68.44
Non-Current Liabilities								
Long-term Liabilities	23,112,027	488,369	23,600,396	23,600,396	16,354,409	(7,245,987)	69.30	70.76
Employee Benefit Liabilities	93,863,466	(9,851,467)	84,011,999	84,011,999	94,807,417	10,795,418	112.85	101.01
Non-current Provisions	66,268,905	11,700,028	77,968,934	77,968,934	68,637,404	(9,331,530)	88.03	103.57
Total Liabilities	317,121,549	43,660,501	360,782,050	360,782,050	423,305,997	62,523,947	117.33	133.48
Total Assets and Liabilities	2,257,653,133	21,058,678	2,278,711,811	2,278,711,811	2,215,786,541	(62,925,270)	97.24	98.15
Net Assets (Equity)								
Accumulated Surplus / (Deficit)	2,257,653,133	21,058,678	2,278,711,811	2,278,711,811	2,215,786,541	(62,925,270)	97.24	98.15
Total Net Assets	2,257,653,133	21,058,678	2,278,711,811	2,278,711,811	2,215,786,541	(62,925,270)	97.24	98.15

Financial Position: Explanation of Variances between Approved Budget and Actual

Reasons for Variances greater than 10% between Approved Budget and Actual Amount on the various items disclosed in the Statement of Financial Position are explained below:

- Inventories:**
Inventories are held by the municipality for own consumption. Inventories include consumables, material and supplies and water stock held at the end of the financial year. The budgeted amount is lower than anticipated.
- Receivables from Exchange Transactions:**
The variance is due to unanticipated increase in debtors' accruals.
- VAT Receivable:**
National Treasury Budget Template not aligned to GRAP and does not provide for VAT Receivable.
- Cash and Cash Equivalents:**
The Cash and Cash Equivalents is influenced by the Capital Projects rollover to 2019/20 and the underspending on the Water Services Infrastructure Grant.
- Operating Lease Receivables:**
NT Budget Template not aligned to GRAP and does not provide for Operating Lease Receivables.
- Intangible Assets:**
Budget provision slightly higher than anticipated.
- Long-term Receivables:**
Budget provision slightly higher than anticipated.
- Consumer Deposits:**
This amount relates to deposits paid by the consumers for new water and electricity connections. The actuals are slightly higher than budgeted amount.
- Provisions:**
This amount relates to Employee Related Benefits and Rehabilitation of landfill sites. The actuals are slightly higher than budgeted amount.
- Payables from Exchange Transactions:**
The variance is due to the classification of the Nelson Mandela Metro bulk water account as contingent liability.
- Unspent Conditional Grants and Receipts:**
No budget provision is allowed for the Unspent Conditional Grants, unless a rollover has been approved by National Treasury.
- Long-term Liabilities:**
It was over-budgeted for Long-term Liabilities.
- Employee Benefit Liabilities:**
Actuals recognised are slightly higher than budgeted amount.
- Non-current Provisions:**
Budget provision slightly higher than anticipated.

RECONCILIATION OF BUDGETED FINANCIAL PERFORMANCE WITH THE STATEMENT OF FINANCIAL PERFORMANCE:

Description	Original Budget	Budget Adjustments	Adjustment Budget	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R	R	R	R	R	R	R
FINANCIAL PERFORMANCE								
Revenue from Non-exchange Transactions								
Property Rates	176,766,233	7,944,536	184,710,769	184,710,769	184,331,308	(379,461)	99.79	104.28
Fines, Penalties and Forfeits	4,229,954	(3)	4,229,951	4,229,951	21,333,783	17,103,832	504.35	504.35
Licences and Permits	13,107,999	(2,147,784)	10,960,215	10,960,215	15,792,788	4,832,573	144.09	120.48
Transfers and Subsidies	163,444,986	151,328,100	314,773,086	314,773,086	216,899,825	(97,873,261)	68.91	132.71
Interest, Dividends and Rent on Land Earned	8,641,911	(7,231,494)	1,410,417	1,410,417	1,325,934	(84,483)	94.01	15.34
Revenue from Exchange Transactions								
Licences and Permits	3,553,426	(1)	3,553,425	3,553,425	-	(3,553,425)	0.00	0.00
Service Charges	400,096,428	10,230,416	410,326,844	410,326,844	413,280,935	2,954,091	100.72	103.30
Sales of Goods and Rendering of Services	7,012,537	(2,387,434)	4,625,103	4,625,103	6,171,011	1,545,908	133.42	88.00
Rental from Fixed Assets	1,880,591	1,162,888	3,043,479	3,043,478	609,214	(2,434,264)	20.02	32.39
Interest, Dividends and Rent on Land Earned	13,904,998	809,637	14,714,635	14,714,635	18,908,767	4,194,132	128.50	135.99
Operational Revenue	904,503	2	904,505	904,506	57,265,097	56,360,591	6,331.09	6,331.11
Gains on Disposal of Property, Plant and Equipment	-	-	-	-	-	-	0.00	0.00
Total Revenue	793,543,566	159,708,863	953,252,429	953,252,429	935,918,661	(17,333,768)	98.18	117.94
Expenditure								
Employee Related Costs	272,802,506	(129,506)	272,673,000	272,673,000	274,158,400	1,485,400	100.54	100.50
Remuneration of Councillors	12,783,834	(541,128)	12,242,706	12,242,706	12,202,166	(40,540)	99.67	95.45
Depreciation and Amortisation	75,357,136	-	75,357,136	75,357,136	75,855,819	498,683	100.66	100.66
Impairment Losses	41,429,000	(5,279,263)	36,149,737	36,149,737	45,764,042	9,614,305	126.60	110.46
Interest, Dividends and Rent on Land	3,020,625	1	3,020,626	3,020,627	6,637,780	3,617,153	219.75	219.75
Bulk Purchases	241,475,644	(4,000,000)	237,475,644	237,475,644	234,527,407	(2,948,237)	98.76	97.12
Contracted Services	45,111,000	22,985,000	68,096,000	68,096,000	62,693,690	(5,402,310)	92.07	138.98
Inventory Consumed	28,458,000	(942,000)	27,516,000	27,516,000	27,381,399	(134,601)	99.51	96.22
Transfers and Subsidies Paid	-	-	-	-	-	-	0.00	0.00
Operating Leases	6,919,365	4,234,875	11,154,240	11,154,240	9,510,378	(1,643,862)	85.26	137.45
Operational Costs	69,426,635	6,648,125	76,074,760	76,074,760	71,487,261	(4,587,499)	93.97	102.97
Loss on Disposal of Property, Plant and Equipment	-	-	-	-	750,454	750,454	0.00	0.00
Total Expenditure	796,783,745	22,976,105	819,759,850	819,759,851	820,968,796	1,208,945	100.15	103.04
Surplus/(Deficit for the Year)	(3,240,179)	136,732,758	133,492,579	133,492,578	114,949,864	(18,542,714)	86.11	-

Financial Position: Explanation of Variances between Approved Budget and Actual

Reasons for Variances greater than 10% between Approved Budget and Actual Amount on the various items disclosed in the Statement of Financial Performance are explained below:

Fines, Penalties and Forfeits:

Fines mostly relate to the traffic fines and arise from unanticipated traffic infringements.

Licences and Permits:

Licences and Permits mostly relate to motor registrations and is influenced by the extent of vehicle registrations. The licences and Permits revenue recognised is higher than anticipated.

Transfers and Subsidies:

Transfers and Subsidies recognised are lower than the budgeted amount, due to the underspending of the Water Services Infrastructure Grant.

Interest, Dividends and Rent on Land Earned: Non-Exchange

This relates to the interest earned on the outstanding Property Rates Accounts. The interest realised is lower than anticipated.

Licences and Permits:

It was over-budgeted for Licences and Permits - negligible amount.

Sales of Goods and Rendering of Services:

Sales of Goods and Rendering of Services actuals are higher than anticipated due to unbudgeted camping fees.

Rental from Fixed Assets:

This relates to the rental of municipal buildings, community halls and other municipal facilities. The revenue recognised is lower than anticipated.

Interest, Dividends and Rent on Land Earned: Exchange Transactions

The interests on the Bank and Investments were slightly higher than anticipated. This was influenced by the extent of the municipality's investment portfolio.

Operational Revenue:

The variance is due to the recognition of discount received on the Nelson Mandela Bay Municipality bulk water account.

Impairment Losses:

The variance is due to traffic fines bad debt provision not budgeted for.

Interest, Dividends and Rent on Land:

The variance is due to interest charged on Overdue Creditors, Finance Lease and Landfill sites provision not budgeted for.

Operating leases:

The operating leases are slightly over budgeted.

Loss on Disposal of Property, Plant and Equipment:

Loss on disposal of PPE was budgeted for under Gains on disposal of PPE.

RECONCILIATION OF BUDGETED CAPITAL EXPENDITURE WITH THE CAPITAL EXPENDITURE PER STANDARD CLASSIFICATION:

Description	Original Budget	Budget Adjustments	Adjustment Budget	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R	R	R	R	R	R	R
CAPITAL EXPENDITURE BY VOTE								
Vote 1 - Executive & Council	985,000	865,565	1,850,565	1,850,565	1,398,761	(451,804)	75.59	142.01
Vote 2 - Financial Services	1,506,900	1,086,552	2,593,452	2,593,452	1,322,564	(1,270,888)	51.00	87.77
Vote 3 - Corporate Services	2,309,000	1,056,067	3,365,067	3,365,067	2,628,616	(736,451)	78.11	113.84
Vote 4 - Planning, Development and Tourism	4,210,951	(1,574,949)	2,636,002	2,636,002	336,348	(2,299,654)	12.76	7.99
Vote 5 - Infrastructure and Engineering	46,544,610	138,084,740	184,629,350	184,629,350	83,574,714	(101,054,636)	45.27	179.56
Vote 6 - Community Services	12,188,362	2,252,178	14,440,540	14,440,540	4,166,035	(10,274,505)	28.85	34.18
Total Capital Expenditure	67,744,823	141,770,153	209,514,976	209,514,976	93,427,038	(116,087,938)	44.59	137.91

Capital Expenditure by Vote: Explanation of Variances between Approved Budget and Actual

Reasons for Variances greater than 10% between Approved Budget and Actual Amount on the various items for Capital Expenditure by Vote are explained below:

Vote 1 - Executive & Council

Projects relate to Ward Capital Programmes, with the budget rolled over to 2019/20 for implementation of the projects. The budget rollover was approved by Council on 15 August 2019

Vote 2 - Financial Services

Projects relate to Vehicle, Dot Matrix Printer, Disaster Recover Server and the upgrade of ICT building, with the budget rolled over to 2019/20 for implementation of the projects. The budget rollovers were approved by Council on 15 August 2019.

Vote 3 - Corporate Services

Projects relate to Electronic Document Management System, Biometric System, Furniture and Equipment, Computer Equipment and fencing of the main building, with the budget rolled over to 2019/20 for implementation of the projects. The budget rollovers were approved by Council on 15 August 2019.

Vote 4 - Planning, Development and Tourism

The underspending of Planning, Development and Tourism Capital budget was due to Land acquisition not yet recognised until the land is transferred to the Municipality.

Vote 5 - Infrastructure and Engineering

The underspending of Infrastructure and Engineering Capital budget was due to underspending transfer of the Water Services Infrastructure Grant.

Vote 6 - Community Services

Projects relate to Vehicles, Life Guards Beach Tower, Furniture and Equipment, Hydraulics Rescue Equipment and Machinery and Equipment, with the budget rolled over to 2019/20 for implementation of the projects. The budget rollovers were approved by Council on 15 August 2019.

RECONCILIATION OF BUDGETED CASH FLOW WITH THE CASH FLOW STATEMENT:

Description	Original Budget	Budget Adjustments	Adjustment Budget	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R	R	R	R	R	R	R
CASH FLOW								
Cash Flows from/(used in) Operating Activities								
Property Rates	164,392,598	9,235,525	173,628,122	173,628,122	183,999,750	10,371,627	105.97	111.93
Transfers and Subsidies	163,444,986	151,328,099	314,773,086	314,773,086	313,403,865	(1,369,220)	99.57	191.75
Service Charges	372,089,679	13,617,561	385,707,241	385,707,241	372,505,778	(13,201,463)	96.58	100.11
External Interest and Dividends Received	21,497,898	(5,819,512)	15,678,387	15,678,387	11,946,693	(3,731,694)	76.20	55.57
Other Receipts	30,689,009	(3,372,331)	27,316,678	27,316,678	88,537,072	61,220,394	324.11	288.50
Employee Related Costs	(275,037,921)	-	(275,037,921)	(275,037,921)	(272,131,086)	2,906,835	98.94	98.94
Remuneration of Councillors	(12,118,501)	-	(12,118,501)	(12,118,501)	(12,202,166)	(83,665)	100.69	100.69
External Interest and Dividends Paid	(3,020,625)	-	(3,020,625)	(3,020,625)	(3,020,625)	(0)	100.00	100.00
Suppliers Paid	(68,135,726)	-	(68,135,726)	(68,135,726)	(369,242,373)	(301,106,647)	541.92	541.92
Other Payments	(318,978,243)	(30,961,609)	(349,939,852)	(349,939,852)	(75,092,518)	274,847,334	21.46	23.54
VAT Receivable / Payable	-	-	-	-	(16,499,179)	(16,499,179)	0.00	0.00
Cash Flows from/(used in) Investing Activities								
Purchase of Property, Plant and Equipment	(67,744,823)	(141,770,156)	(209,514,980)	(209,514,980)	(94,313,177)	115,201,803	45.02	139.22
Proceeds on Disposal of Property, Plant and Equipment	-	-	-	-	(858,708)	(858,708)	0.00	0.00
Decrease / (Increase) in Long-term Receivables	-	-	-	-	3,000	3,000	0.00	0.00
Cash Flows from/(used in) Financing Activities								
Repayment of Borrowings	(13,246,996)	4,302,961	(8,944,035)	(8,944,035)	(7,123,483)	1,820,552	79.65	53.77
Cash and Cash Equivalents at End of the Year	(6,168,664)	(3,439,462)	(9,608,126)	(9,608,126)	119,912,842	129,520,968	0.00	0.00
Cash and Cash Equivalents at Beginning of Period	59,729,452	34,585,693	94,315,145	94,315,145	94,315,125	(20)		
Cash and Cash Equivalents at End of Period	53,560,788	31,146,231	84,707,019	84,707,019	214,227,967	129,520,948		

Cash Flow: Explanation of Variances between Approved Budget and Actual

Reasons for Variances greater than 10% between Approved Budget and Actual Amount on the various items disclosed in the Cash Flow Statement are explained below:

External Interest and Dividends Received:

Interest on Service Charges was lower than anticipated, due to improved collection rate.

Other Receipts:

Other Receipts mostly relate to unallocated deposits for Service Charges Revenue.

External Interest and Dividends Paid:

The variance is due to interest charged on Overdue Creditors and Interest on Finance Lease was not budgeted for.

VAT Payable:

The variance is due to V.A.T Payable not budgeted for.

Purchase of Property, Plant and Equipment:

The underspending of projects relate to various Capital Programmes , with the budget rollover to 2019/20 for implementation of the projects. The budget rollover was approved by Council on 15 August 2019. This is also influenced by the underspending of the Water Services Infrastructure Grant.

Proceeds on Disposal of Property, Plant and Equipment:

Proceeds on Disposal of Property, Plant and Equipment was not budgeted for.

Decrease / (Increase) in Long-term Receivables:

No budget provision made for Long-term Receivables.

Loans repaid:

Repayment of borrowings were lower than anticipated.

Cash and Cash Equivalents at End of the Year:

All above-mentioned items are reflecting in Cash and Cash Equivalents at End of the Year.

RECONCILIATION OF BUDGET SURPLUS/(DEFICIT) WITH THE SURPLUS/(DEFICIT) IN THE STATEMENT OF FINANCIAL PERFORMANCE:

Description	2018/19		2017/18
	R		R
Net surplus/(deficit) per the statement of financial performance	114,949,864		(2,672,400)
Revenue from Non-exchange Transactions			
Property Rates	379,461		(54,803)
Fines, Penalties and Forfeits	(17,103,832)		(30,870,029)
Licences and Permits	(4,832,573)		(3,547,988)
Transfers and Subsidies	97,873,261		2,476,227
Surcharges and Taxes	-		-
Interest, Dividends and Rent on Land Earned	84,483		2,374,064
Revenue from Exchange Transactions			
Licences and Permits	3,553,425		2,277,011
Service Charges	(2,954,091)		9,741,544
Sales of Goods and Rendering of Services	(1,545,908)		(292,476)
Rental from Fixed Assets	2,434,264		1,159,943
Interest, Dividends and Rent on Land Earned	(4,194,132)		(1,565,851)
Operational Revenue	(56,360,591)		537,824
Expenditure			
Employee Related Costs	1,485,400		(3,267,474)
Remuneration of Councillors	(40,540)		(44,735)
Depreciation and Amortisation	498,683		(10,112,349)
Impairment Losses	9,614,305		11,481,935
Finance Costs	3,617,153		10,556,234
Bulk Purchases	(2,948,237)		(8,034,921)
Contracted Services	(5,402,310)		(7,478,738)
Inventory Consumed	(134,601)		(6,810,379)
Grants and Subsidies Paid	-		342,740
Operating Leases	(1,643,862)		(806,226)
Operational Costs	(4,587,499)		2,284,485
Loss on Disposal of Property, Plant and Equipment	750,454		1,591,775
Net surplus/(deficit) per approved budget	133,492,578		(30,734,587)

KOUGA LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

1. BASIS OF PRESENTATION

The Annual Financial Statements have been prepared on an Accrual Basis of accounting and are in accordance with the historical cost convention, except where indicated otherwise.

The Annual Financial Statements have been prepared in accordance with Standards of Generally Recognised Accounting Practices (GRAP), as approved by the Minister of Finance, including any interpretations, guidelines and directives issued by the Accounting Standards Board and in accordance with the requirements of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

The municipality implemented the Municipal Standard Chart of Accounts (mSCOA) during the year ended 30 June 2018 as required in terms of the Municipal Regulations on the Standard Chart of Accounts, announced in Government Gazette No 37577 of 22 April 2014, in accordance with section 168 of the Local Government: Municipal Finance Management Act (Act 56 of 2003) and through directives and guidelines from National Treasury.

1.1 Presentation Currency

The Annual Financial Statements are presented in South African Rand, rounded off to the nearest Rand which is the municipality's functional currency.

1.2 Changes in Accounting Policy and Comparability

Accounting Policies have been consistently applied, except where otherwise indicated below.

For the years ended 30 June 2018 and 30 June 2019 the municipality has adopted the accounting framework as set out in paragraph 1 above. The details of any resulting changes in Accounting Policy and comparative restatements are set out below and in the relevant Notes to the Annual Financial Statements.

With the adoption of mSCOA the municipality reclassified certain balances in order to comply with the instruction notes issued. The result of the reclassification is set out below and in the relevant Notes to the Annual Financial Statements.

1.3 Critical Judgements, Estimations and Assumptions

In the application of the municipality's Accounting Policies, which are described below, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and estimations that management have made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

1.3.1 Revenue Recognition

Accounting Policy 8.2 on Revenue from Exchange Transactions and Accounting Policy 8.3 on Revenue from Non-exchange Transactions describes the conditions under which revenue will be recorded by the management of the municipality.

KOUGA LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9 (*Revenue from Exchange Transactions*) and GRAP 23 (*Revenue from Non-exchange Transactions*). As far as Revenue from Non-exchange Transactions is concerned (see Basis of Preparation above), and, in particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. Management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

1.3.2 Impairment of Financial Assets

Accounting Policy 6.4 on Impairment of Financial Assets describes the process followed to determine the value at which Financial Assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that impairment of Financial Assets recorded during the year is appropriate.

- **Impairment of Trade Receivables:**

The calculation in respect of the impairment of Debtors is based on an assessment of the extent to which Debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This is performed per service-identifiable categories across all classes of debtors.

1.3.3 Useful lives of Property, Plant and Equipment, Intangible Assets and Investment Property

As described in Accounting Policies 2.3, 3.2 and 4.2, the municipality depreciates its Property, Plant & Equipment and Investment Property, and amortises its Intangible Assets, over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use.

The estimation of residual values of assets is based on management's judgement as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

1.3.4 Impairment: Write-down of Property, Plant & Equipment, Intangible Assets, and Inventories

Accounting Policy 5 on Impairment of Assets, Accounting Policy 3.2 on Intangible Assets – Subsequent Measurement, Amortisation and Impairment and Accounting Policy 7.2 on Inventory – Subsequent Measurement describe the conditions under which non-financial assets are tested for potential impairment losses by the management of the municipality. Significant estimates and judgements are made relating to impairment testing of Property, Plant and Equipment, impairment testing of Intangible Assets and write-down of Inventories to the lowest of Cost and Net Realisable Value or Current Replacement Cost.

In making the above-mentioned estimates and judgement, management considered the subsequent measurement criteria and indicators of potential impairment losses. In particular, the calculation of the recoverable service amount for PPE and Intangible Assets and the Net Realisable Value for Inventories involves significant judgment by management.

Estimated impairments during the year to Inventory, Property, Plant and Equipment, and Intangible Assets are disclosed in Notes 2, 9 and 10 to the Annual Financial Statements, if applicable.

1.3.5 Water Inventory

The estimation of the Water Inventory in reservoirs is based on the measurement of water via electronic level sensors, which determines the depth of water in the reservoirs, which is then converted into volumes based on the total capacity of the reservoir. Furthermore, the length and width of all pipes are also taken into account in determining the volume of water on hand at year-end. Refer to Accounting Policy 7.2.2

KOUGA LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

1.3.6 Defined Benefit Plan Liabilities

As described in Accounting Policy 10.2, Employee Benefits – Post-employment Benefits, the municipality obtains actuarial valuations of its Defined Benefit Plan Liabilities. The defined benefit obligations of the municipality that were identified are Post-retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of GRAP 25. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in the relevant Notes to the Annual Financial Statements.

1.3.7 Provisions and Contingent Liabilities

Management judgement is required when recognising and measuring Provisions and when measuring Contingent Liabilities. Provisions are discounted where the effect of discounting is material using actuarial valuations.

1.3.8 Budget Information

Deviations between budget and actual amounts are regarded as material differences when a 10% deviation exists. All material differences are explained in the relevant Notes to the Annual Financial Statements.

1.4 Going Concern Assumption

The Annual Financial Statements have been prepared on a *Going Concern Assumption*.

1.5 Standards, Amendments to Standards and Interpretations issued but not yet Effective

The following GRAP Standards have been issued but are not yet effective and have not been early adopted by the municipality:

- | | |
|------------|--|
| • GRAP 18 | Segment Reporting |
| • GRAP 20 | Related Party Disclosures |
| • GRAP 32 | Service Concession Arrangement Grantor |
| • GRAP 108 | Statutory Receivables |
| • GRAP 109 | Accounting by Principals and Agents |
| • IGRAP 17 | Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset |

The municipality applied the principles established in the following Standards of GRAP that have been issued but are not yet effective, in developing appropriate disclosure:

- | | |
|-----------|---------------------------|
| • GRAP 20 | Related Party Disclosures |
|-----------|---------------------------|

Management has considered all of the above-mentioned GRAP Standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality, except for:

- | | |
|--|---------------------------------------|
| • GRAP 108 | Statutory Receivables:- |
| It is expected that the Standard will affect the valuation of Receivables from Non-Exchange Transactions, but the extent cannot be determined at this stage. | |
| • GRAP 109 | Accounting by Principals and Agents:- |
| The effect of this Standard on accounting for transactions between the municipality, another function of government or private sector and third parties, can only be determined once it becomes effective. | |

KOUGA LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

2. PROPERTY, PLANT AND EQUIPMENT

2.1 Initial Recognition

Property, Plant and Equipment are initially recognised at cost.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Repairs and Maintenance are expenses incurred through servicing equipment or repairing of existing assets. These expenses are not recognised in the carrying value of the asset, but directly recognised in Surplus or Deficit and measured at cost against the attributing segments of the Municipal Standard Chart of Accounts (mSCOA).

2.2 Subsequent Measurement

Subsequently all Property Plant and Equipment are measured at cost, less accumulated depreciation and accumulated impairment losses.

2.3 Depreciation

Depreciation on assets other than land is calculated on cost, using the *Straight-line Method*, to allocate their cost or revalued amounts to their residual values over the estimated useful lives of the assets. Each part of an item of Property, Plant and Equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation rates are based on the following estimated useful lives:

Asset Class	Years	Asset Class	Years
Buildings		Community	
Improvements	5 - 50	Community Facilities	5 - 50
		Recreational Facilities	10 - 40
Infrastructure		Other	
Electricity	10 - 80	Computer Equipment	3 - 10
Railways	30	Emergency Equipment	5 - 10
Roads and Paving	5 - 80	Furniture and Fittings	5 - 15
Sanitation	5 - 80	Motor Vehicles	7 - 15
Sewerage / Solid Waste	5 - 80	Office Equipment	3 - 15
Water	5 - 80	Plant and Equipment	2 - 20
Landfill Sites	30 - 50	Other Assets	5 - 15

2.4 Land

Land is stated at historical cost and is not depreciated as it is deemed to have an indefinite useful life.

2.5 Incomplete Construction Work

Incomplete Construction Work is stated at historical cost. Depreciation only commences when the asset is available for use.

KOUGA LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

2.6 Finance Leases

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as Property, Plant and Equipment controlled by the municipality or, where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

2.7 Derecognition

The gain or loss arising from the derecognition of an item of Property, Plant and Equipment is included in Surplus or Deficit when the item is derecognised. Gains are not classified as Revenue.

2.8 Infrastructure Assets

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

3. INTANGIBLE ASSETS

3.1 Initial Recognition

Identifiable non-monetary assets without physical substance are classified and recognised as Intangible Assets.

Intangible Assets are initially recognised at cost.

Where an Intangible Asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an Intangible Asset acquired in exchange for non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets, is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up. If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

Repairs and Maintenance are expenses incurred through servicing equipment or repairing of existing assets. These expenses are not recognised in the carrying value of the asset, but directly recognised in Surplus or Deficit and measured at cost against the attributing segments of the Municipal Standard Chart of Accounts (mSCOA).

3.2 Subsequent Measurement, Amortisation and Impairment

After initial recognition, Intangible Assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Amortisation is charged on a *Straight-line Method* over the Intangible Assets' useful lives. The residual value of Intangible Assets with finite useful lives is zero, unless an active market exists. Where Intangible Assets are deemed to have indefinite useful lives, such Intangible Assets are not amortised. However, such Intangible Assets are subject to an annual impairment test.

KOUGA LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

The amortisation rates are based on the following estimated useful lives:

	Asset Class	Years
	Computer Software Purchased	3 - 5

3.3 Derecognition

The gain or loss arising from the derecognition of an item of Intangible Asset is included in Surplus or Deficit when the item is derecognised. Gains are not classified as Revenue.

4. INVESTMENT PROPERTY

4.1 Initial Recognition

At initial recognition, the municipality measures Investment Property at cost. However, where an Investment Property was acquired through a non-exchange transaction (i.e. where it acquired the Investment Property for no or a nominal value), its cost is its fair value as at the date of acquisition.

Repairs and Maintenance are expenses incurred through servicing equipment or repairing of existing assets. These expenses are not recognised in the carrying value of the asset, but directly recognised in Surplus or Deficit and measured at cost against the attributing segments of the Municipal Standard Chart of Accounts (mSCOA).

4.2 Subsequent Measurement

Investment Property is measured using the *Cost Model* and is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on cost, using the *Straight-line Method* over the useful life of the property, which is estimated at 5 - 50 years. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

The gain or loss arising on the disposal of an Investment Property is recognised in Surplus or Deficit.

4.3 Derecognition

The gain or loss arising from the derecognition of an item of Investment Property is included in Surplus or Deficit when the item is derecognised. Gains are not classified as Revenue.

5. IMPAIRMENT OF ASSETS

The municipality classifies all assets held with the primary objective of generating a commercial return as *Cash Generating Assets*. All other assets are classified as *Non-cash Generating Assets*.

5.1 Impairment of Cash Generating Assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash generating unit to which the asset belongs is determined.

KOUGA LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

The recoverable amount of an asset or a cash generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in Surplus or Deficit.

An impairment loss is recognised for cash generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in Surplus or Deficit.

5.2 Impairment of Non-cash Generating Assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the non-cash generating unit to which the asset belongs is determined.

The recoverable service amount of a non-cash generating asset is the higher of its fair value less costs to sell and its value in

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in Surplus or Deficit.

An impairment loss is recognised for non-cash generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in Surplus or Deficit.

KOUGA LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

6. FINANCIAL INSTRUMENTS

The municipality has various types of Financial Instruments and these can be broadly categorised as *Financial Assets*, *Financial Liabilities* or *Residual Interests* in accordance with the substance of the contractual agreement.

Initial Recognition

Financial Assets and Financial Liabilities are recognised when it becomes party to the contractual provisions of the instrument.

The municipality does not offset a Financial Asset and a Financial Liability unless a legally enforceable right to set off the recognised amounts currently exist and the municipality intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Fair Value Methods and Assumptions

The fair values of Financial Instruments are determined as follows:

- The fair values of quoted investments are based on current bid prices.
- If the market for a Financial Asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

6.1 Financial Assets – Classification

The municipality has the following types of Financial Assets:

Type of Financial Asset	Classification in terms of GRAP 104
Long-term Receivables	Financial Assets at Amortised Cost
Receivables from Exchange Transactions	Financial Assets at Amortised Cost
Receivables from Non-exchange Transactions	Financial Assets at Amortised Cost
Bank, Cash and Cash Equivalents – Investment Deposits	Financial Assets at Amortised Cost
Bank, Cash and Cash Equivalents – Bank	Financial Assets at Amortised Cost
Bank, Cash and Cash Equivalents – Cash	Financial Assets at Fair Value
Current Portion of Long-term Receivables	Financial Assets at Amortised Cost

Cash includes cash-on-hand (including petty cash) and cash with banks (including call deposits). For the purposes of the Cash Flow Statement, Cash and Cash Equivalents comprise cash-on-hand and deposits held on call with banks, net of bank overdrafts.

6.2 Financial Liabilities – Classification

The municipality has the following types of Financial Liabilities:

Type of Financial Liability	Classification in terms of GRAP 104
Long-term Liabilities	Financial Liabilities at Amortised Cost
Payables from Exchange Transactions	Financial Liabilities at Amortised Cost
Payables from Non-exchange Transactions	Financial Liabilities at Amortised Cost
Current Portion of Long-term Liabilities	Financial Liabilities at Amortised Cost

6.3 Initial and Subsequent Measurement

6.3.1 Financial Assets:

Financial Assets measured at Amortised Cost

Financial Assets at Amortised Cost are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the Financial Asset. Subsequently, these assets are measured at amortised cost using the *Effective Interest Method* less any impairment, with interest recognised on an *Effective Yield Basis*.

KOUGA LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Financial Assets measured at Fair Value

Financial Assets at Fair Value are initially measured at fair value, excluding directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses recognised directly in Surplus or Deficit.

6.3.2 Financial Liabilities:

Financial Liabilities held at Amortised Cost

Any other Financial Liabilities are classified as *Other Financial Liabilities* (All Payables, Loans and Borrowings are classified as Other Liabilities) and are initially measured at fair value, net of transaction costs. Trade and Other Payables, Interest-bearing Debt including Finance Lease Liabilities, Non-interest-bearing Debt and Bank Borrowings are subsequently measured at amortised cost using the *Effective Interest Rate Method*. Interest expense is recognised in Surplus or Deficit by applying the effective interest rate.

Bank Borrowings, consisting of interest-bearing short-term bank loans, repayable on demand and overdrafts are recorded at the proceeds received. Finance costs are accounted for using the *Accrual Basis* and are added to the carrying amount of the bank borrowing to the extent that they are not settled in the period that they arise.

Prepayments are carried at cost less any accumulated impairment losses.

6.4 Impairment of Financial Assets

Financial Assets, other than those at fair value, are assessed for indicators of impairment at the end of each reporting period. Financial Assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised through the use of an allowance account.

6.4.1 Financial Assets at Amortised Cost

A provision for impairment of Accounts Receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made whereby the recoverability of accounts receivable is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. The amount of the provision is the difference between the Financial Asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of Financial Assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to short-term receivables are not discounted where the effect of discounting is immaterial.

Government accounts are not provided for as such accounts are regarded as receivable for the following reasons:

- It is management's judgement that the accounts are not "lost events" in terms of GRAP 104.58.
- State Departments and Entities have to pay their creditors within 30 days in terms of the PFMA.
- Interest is charged on all outstanding balances at a rate of the banker's prime rate plus 1%.
- There is an urge from National Treasury that State Departments and Entities should start paying their outstanding debt.

The carrying amount of the Financial Asset is reduced by the impairment loss directly for all Financial Assets carried at Amortised Cost with the exception of Consumer Debtors, where the carrying amount is reduced through the use of an allowance account. When a Consumer Debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against revenue. Changes in the carrying amount of the allowance account are recognised in Surplus or Deficit.

KOUGA LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

6.5 Derecognition of Financial Assets

The municipality derecognises Financial Assets only when the contractual rights to the cash flows from the asset expires or it transfers the Financial Asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non-recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred Financial Asset, the municipality continues to recognise the Financial Asset and also recognises a collateralised borrowing for the proceeds received.

6.6 Derecognition of Financial Liabilities

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

The municipality recognises the difference between the carrying amount of the Financial Liability (or part of a Financial Liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in Surplus or Deficit.

7. INVENTORIES

7.1 Initial Recognition

Inventories comprise current assets held-for-sale, current assets for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the Inventories to their current location and condition. Where Inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where Inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Direct costs relating to properties that will be sold as Inventory are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

7.2 Subsequent Measurement

7.2.1 Consumable Stores

Inventories sold are valued at the lower of cost and net realisable value (net amount that the municipality expects to realise from the sale on Inventory in the ordinary course of business). The cost is determined using the *weighted average Method*.

Consumable stores distributed at no charge or for a nominal charge and finished goods are valued at the lower of cost and current replacement cost (the cost the municipality would incur to acquire the asset on the reporting date). The cost is determined using the *weighted average Method*.

7.2.2 Water Inventory

Water is regarded as Inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes, etc). However, water in dams, that are filled by natural resources and that has not yet been treated, that is under the control of the municipality but cannot be measured reliably as there is no cost attached to the water, is therefore not recognised in the Statement of Financial Position.

KOUGA LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

The basis of determining the cost of water purchased and not yet sold at reporting date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the Inventory to its present location and condition, net of trade discounts and rebates.

Water and purified effluent are valued by using the *FIFO Method*, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

8. REVENUE RECOGNITION

8.1 General

Revenue is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

8.2 Revenue from Exchange Transactions

8.2.1 Service Charges

Service Charges are levied in terms of approved tariffs.

Service Charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to all properties that have improvements. Tariffs are determined per category of property usage, and are levied based on the extent of each property.

Service charges relating to sewerage and sanitation are recognised on a monthly basis in arrears by applying the approved tariff to all properties. Tariffs are determined per category of property usage, and are levied based on the extent of each property.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

8.2.2 Prepaid Electricity

Revenue from the sale of electricity prepaid meter cards are recognised at the point of sale. Revenue from the sale of electricity prepaid meter cards are recognised based on an estimate of the prepaid electricity consumed as at the reporting date.

8.2.3 Rentals Received

Revenue from the rental of facilities and equipment is recognised on a Straight-line Basis over the term of the lease agreement.

8.2.4 Interest Earned

Interest earned on investments is recognised in Surplus or Deficit on the *Time-proportionate Basis* that takes into account the effective yield on the investment.

KOUGA LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

8.2.5 Tariff Charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

8.2.6 Revenue from Agency Services

Revenue for agency services is recognised on a monthly basis once the revenue collected on behalf of agents has been quantified. The revenue recognised is in terms of the agency agreement.

8.2.7 Sale of Goods (including Houses)

Revenue from the sale of goods is recognised when all the following conditions have been met:

- (a) The municipality has transferred to the buyer the significant risks and rewards of ownership of the goods;
- (b) The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- (c) The amount of revenue can be measured reliably;
- (d) It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- (e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

8.3 Revenue from Non-exchange Transactions

8.3.1 Rates and Taxes

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a *Time-proportionate Basis* with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

8.3.2 Fines

Fines constitute both spot fines and summonses

Revenue for fines is recognised when the fine is issued at the full amount of the receivable. The municipality uses estimates to determine the amount of revenue that the municipality is entitled to collect that is subject to further legal proceedings.

8.3.3 Public Contributions

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

9.3.2 Other Donations and Contributions

Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment, when such items of property, plant and equipment are available for use.

8.3.4 Government Grants and Receipts

Equitable share allocations are recognised in revenue at the start of the financial year if no time-based restrictions exist.

KOUGA LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in Surplus or Deficit in the period in which they become receivable.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest, it is recognised as interest earned in Surplus or Deficit.

8.3.5 Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure

The recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No 56 of 2003) and is recognised as revenue when the recovery thereof from the responsible councillors or officials became virtually certain in a financial period subsequent to the period when the actual unauthorised, irregular, fruitless and wasteful expenditure was incurred.

9. PROVISIONS

The best estimate of the expenditure required to settle the present obligation is the amount that the municipality would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time and are determined by the judgment of the management of the municipality, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it – this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in Surplus or Deficit as a finance cost as it occurs.

9.1 Provision for Environmental Rehabilitation

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure, are based on the municipality's policy, taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to Surplus or Deficit.

KOUGA LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

10. EMPLOYEE BENEFIT LIABILITIES

10.1 Short-term Employee Benefits

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

10.2 Post-employment Benefits

The municipality provides retirement benefits for its employees and councillors, and has both defined benefit and defined contribution post-employment plans.

10.2.1 Defined Contribution Plans

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in Surplus or Deficit in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

10.2.2 Defined Benefit Plans

Post-retirement Health Care Benefits

The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee. Not all Medical Aid Funds with which the municipality is associated, provide for continued membership.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the *Projected Unit Credit Method*, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out annually by independent qualified actuaries.

Actuarial gains or losses are recognised immediately in Surplus or Deficit.

Past-service costs are recognised immediately in Surplus or Deficit.

Long-service Allowance

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The *Projected Unit Credit Method* is used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through Surplus or Deficit.

Provincially-administered Defined Benefit Plans

The municipality contributes to various National- and Provincial-administered Defined Benefit Plans on behalf of its qualifying employees. These funds are multi-employer funds. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. These defined benefit funds are actuarially valued triennially on the Projected Unit Credit Method basis. Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities.

KOUGA LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Defined Benefit Pension Plans

The municipality has an obligation to provide Post-retirement Pension Benefits to certain of its retirees. Pension contributions in respect of employees who were not members of a pension fund are recognised as an expense when incurred. Staff provident funds are maintained to accommodate personnel who, due to age, cannot join or be part of the various pension funds. The municipality contributes monthly to the funds.

The liability recognised in the Statement of Financial Position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the *Projected Unit Credit Method*. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains or losses are recognised immediately in Surplus or Deficit.

Past-service costs are recognised immediately in Surplus or Deficit.

11. LEASES

11.1 The Municipality as Lessee

11.1.1 Finance Leases

Property, plant and equipment or intangible assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are recognised at equal amounts. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments to the fair value of the asset, plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment or intangible assets. The lease liability is reduced by the lease payments, which are allocated between the finance cost and the capital repayment using the *Effective Interest Rate Method*. Finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

11.1.2 Operating Leases

The municipality recognises operating lease rentals as an expense in Surplus or Deficit on a *Straight-line Basis* over the term of the relevant lease. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. Any lease incentives are included as part of the net consideration agreed.

11.2 The Municipality as Lessor

Amounts due from lessees under **Finance Leases** or instalment sale agreements are recorded as receivables at the amount of the municipality's net investment in the leases. Finance lease or instalment sale revenue is allocated to accounting periods so as to reflect a constant periodic rate of return on the municipality's net investment outstanding in respect of the leases or instalment sale agreements.

Rental revenue from **Operating Leases** is recognised on a *Straight-line Basis* over the term of the relevant lease.

KOUGA LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

12. GRANTS-IN-AID

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- (a) Receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- (b) Expect to be repaid in future; or
- (c) Expect a financial return, as would be expected from an investment.

These transfers are recognised in Surplus or Deficit as expenses in the period that the events giving rise to the transfer occurred.

13. VALUE ADDED TAX

The municipality accounts for Value Added Tax on the Payments Basis in accordance with section 15(2)(a) of the Value-Added Tax Act (Act No 89 of 1991).

14. UNAUTHORISED EXPENDITURE

Unauthorised Expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state, and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). All expenditure relating to Unauthorised Expenditure is accounted for as an expense in Surplus or Deficit in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in Surplus or Deficit.

15. IRREGULAR EXPENDITURE

Irregular Expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), the Public Office Bearers Act (Act No 20 of 1998), or is in contravention of the Municipality's or Municipal Entities' Supply Chain Management Policies. Irregular Expenditure excludes Unauthorised Expenditure. Irregular Expenditure is accounted for as an expense in Surplus or Deficit in the period it occurred and where recovered, it is subsequently accounted for as revenue in Surplus or Deficit.

16. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and Wasteful Expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. All expenditure relating to Fruitless and wasteful expenditure is accounted for as expenditure in Surplus or Deficit in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in Surplus or Deficit.

17. MATERIAL LOSSES

The MFMA requires the disclosure of material losses incurred during the year under review. The disclosure is provided in order to comply to the legislative requirements governing Municipalities and Municipal Entities.

Due to their significance, the complete calculation of water and electricity losses is provided, including the opening balance, purchases, sales and closing balance where applicable. The unit rate is the rate per the last purchase as inventory is measured based on the *First-In-First-Out Method* as defined by GRAP 12 (*Inventories*).

KOUGA LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

18. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent Assets and Contingent Liabilities are not recognised. Contingencies are disclosed in Notes to the Annual Financial Statements.

19. COMMITMENTS

Commitments are future expenditure to which the municipality committed and that will result in the outflow of resources. Commitments are not recognised in the Statement of Financial Position as a liability or as expenditure in Surplus or Deficit, but are included in the disclosure Notes. A distinction is made between capital and current commitments.

20. RELATED PARTIES

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Management is regarded as a related party and comprises the Councillors, Mayor, Executive Committee Members, Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

21. EVENTS AFTER THE REPORTING DATE

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as Non-adjusting Events after the Reporting Date have been disclosed in Notes to the Annual Financial Statements.

22. BUDGET INFORMATION

The annual budget figures have been prepared in accordance with the GRAP standard and are consistent with the Accounting Policies adopted by the Council for the preparation of these Annual Financial Statements. The amounts are scheduled as a separate additional financial statement, called the Statement of Comparison of Budget and Actual amounts. Explanatory comment is provided in the statement giving reasons for overall growth or decline in the budget and motivations for over- or under spending on line items. The annual budget figures included in the Annual Financial Statements are for the municipality and do not include budget information relating to subsidiaries or associates. These figures are those approved by the Council at the beginning and during the year following a period of consultation with the public as part of the Integrated Development Plan. The budget is approved on an accrual basis by nature classification.

The approved budget covers the period from 1 July 2018 to 30 June 2019.

23. CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS

Changes in accounting policies that are effected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy.

In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in notes to the Annual Financial Statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Refer to Note 42 to the Annual Financial Statements for details of corrections of errors recorded during the period under review.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

2019
R **2018**
R

1. GENERAL INFORMATION

Kouga Municipality is a local government institution in Jeffreys Bay, Eastern Cape, and is one of seven local municipalities under the jurisdiction of the Sarah Baartman District Municipality. The address of its registered office and principal place of business are disclosed under "General Information" included in the Annual Financial Statements and in the introduction of the Annual Report. The principal activities of the municipality are disclosed in the Annual Report and are prescribed by the Municipal Finance Management Act (MFMA).

2. INVENTORIES

Materials and Supplies	8,612,231	6,096,259
Water - at cost	637,127	549,039
Total Inventories	<u>9,249,357</u>	<u>6,666,181</u>

Inventories are held for own use and measured at the lower of Cost and Current Replacement Cost. No write downs of Inventory to Net Realisable Value were required.

The cost of Inventories recognised as an expense during the period was R27,381,399 (2018: R20,594,170).

No Inventories have been pledged as collateral for Liabilities of the municipality.

3. RECEIVABLES FROM EXCHANGE TRANSACTIONS

	Gross Balances R	Provision for Impairment R	Net Balances R
As at 30 June 2019			
Service Debtors:	159,715,605	111,436,400	48,279,205
Electricity	41,593,571	9,158,760	32,434,811
Refuse	37,976,403	36,373,742	1,602,661
Sewerage	21,272,093	18,951,140	2,320,953
Other Service Charges	4,375,677	3,296,280	1,079,398
Water	54,497,861	43,656,479	10,841,381
Other Receivables	140,060	-	140,060
Prepayments and Advances	5,205,016	22,000	5,183,016
Recoveries from Staff	188,443	22,000	166,443
Annual Licence Fees	2,731,573	-	2,731,573
Deposits for Land	2,285,000	-	2,285,000
Control, Clearing and Interface Accounts	4,659,368	-	4,659,368
Total Receivables from Exchange Transactions	<u>169,720,049</u>	<u>111,458,400</u>	<u>58,261,649</u>

	Gross Balances R	Provision for Impairment R	Net Balances R
As at 30 June 2018			
Service Debtors:	138,508,681	92,926,783	45,581,899
Electricity	30,664,656	9,333,292	21,331,364
Refuse	21,409,523	21,672,833	(263,311)
Sewerage	17,298,760	15,465,116	1,833,644
Other Service Charges	26,027,795	11,058,259	14,969,536
Water	43,107,946	35,397,282	7,710,665
Other Receivables	2,518	-	2,518
Prepayments and Advances	2,752,843	22,000	2,730,843
Recoveries from Staff	185,443	22,000	163,443
Annual Licence Fees	2,567,400	-	2,567,400
Deposits for Land	-	-	-
Control, Clearing and Interface Accounts	518,922	-	518,922
Total Receivables from Exchange Transactions	<u>141,782,964</u>	<u>92,948,783</u>	<u>48,834,181</u>

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

The municipality did not pledge any of its Receivables as security for borrowing purposes.

The fair value of Receivables was determined after considering the standard terms and conditions of agreements entered into between the municipality and Receivables as well as the current payment ratios of the municipality's Receivables.

3.1 Ageing of Receivables from Exchange Transactions

As at 30 June 2019

	Current 0 - 30 days	Past Due			Total
		31 - 60 Days	61 - 90 Days	+ 90 Days	
Electricity:					
Gross Balances	14,364,309	13,139,589	2,279,686	11,809,987	41,593,571
Less: Provision for Impairment	925	96,589	54,392	9,006,855	9,158,760
Net Balances	14,363,384	13,043,000	2,225,294	2,803,133	32,434,811
Refuse:					
Gross Balances	234	3,903,507	1,611,247	32,461,414	37,976,403
Less: Provision for Impairment	2	5,372	880,215	35,488,152	36,373,742
Net Balances	232	3,898,135	731,032	(3,026,737)	1,602,661
Sewerage:					
Gross Balances	236	3,356,069	1,199,732	16,716,057	21,272,093
Less: Provision for Impairment	8	76,945	531,457	18,342,729	18,951,140
Net Balances	227	3,279,124	668,275	(1,626,672)	2,320,953
Other Service Charges:					
Gross Balances	81,101	20,667	109,282	4,164,628	4,375,677
Less: Provision for Impairment	40,550	7,215	52,696	3,195,818	3,296,279
Net Balances	40,550	13,452	56,586	968,810	1,079,398
Water:					
Gross Balances	1,988,539	5,277,651	2,441,130	44,790,541	54,497,861
Less: Provision for Impairment	166	144,153	1,114,465	42,397,696	43,656,480
Net Balances	1,988,373	5,133,498	1,326,666	2,392,845	10,841,381
Other Receivables:					
Gross Balances	140,060	-	-	-	140,060
Less: Provision for Impairment	-	-	-	-	-
Net Balances	140,060	-	-	-	140,060
Prepayments and Advances:					
Gross Balances	5,205,016	-	-	-	5,205,016
Less: Provision for Impairment	22,000	-	-	-	22,000
Net Balances	5,183,016	-	-	-	5,183,016
Control, Clearing and Interface Accounts:					
Gross Balances	4,659,368	-	-	-	4,659,368
Less: Provision for Impairment	-	-	-	-	-
Net Balances	4,659,368	-	-	-	4,659,368

As at 30 June 2019 Receivables of R58,261,649 were past due but not impaired. The age analysis of these Receivables are as follows:

	Current 0 - 30 days	Past Due			Total Past Due
		31 - 60 Days	61 - 90 Days	+ 90 Days	
All Receivables:					
Gross Balances	26,438,862	25,697,483	7,641,077	109,942,627	169,720,050
Less: Provision for Impairment	63,652	330,274	2,633,225	108,431,250	111,458,401
Net Balances	26,375,211	25,367,208	5,007,853	1,511,377	58,261,649

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

As at 30 June 2018

	Current 0 - 30 days	Past Due			Total
		31 - 60 Days	61 - 90 Days	+ 90 Days	
Electricity:					
Gross Balances	17,580,303	2,132,100	1,099,125	9,853,129	30,664,656
Less: Provision for Impairment	74,652	14,768	1,126,016	8,117,856	9,333,292
Net Balances	17,505,651	2,117,333	(26,892)	1,735,273	21,331,364
Refuse:					
Gross Balances	1,307,831	1,138,209	905,598	18,057,884	21,409,523
Less: Provision for Impairment	3,920	805,487	1,019,149	19,844,278	21,672,833
Net Balances	1,303,911	332,723	(113,551)	(1,786,394)	(263,311)
Sewerage:					
Gross Balances	2,206,837	960,755	792,258	13,338,910	17,298,760
Less: Provision for Impairment	59,284	532,947	865,934	14,006,951	15,465,116
Net Balances	2,147,553	427,808	(73,675)	(668,042)	1,833,644
Other Service Charges:					
Gross Balances	12,959,024	544,952	612,911	11,910,909	26,027,795
Less: Provision for Impairment	348,417	233,166	474,857	10,001,819	11,058,259
Net Balances	12,610,607	311,786	138,054	1,909,089	14,969,536
Water:					
Gross Balances	8,865,925	1,958,629	1,830,218	30,453,174	43,107,946
Less: Provision for Impairment	122,617	1,171,971	2,037,869	32,064,825	35,397,282
Net Balances	8,743,308	786,658	(207,652)	(1,611,650)	7,710,665
Other Receivables:					
Gross Balances	2,518	-	-	-	2,518
Less: Provision for Impairment	-	-	-	-	-
Net Balances	2,518	-	-	-	2,518
Prepayments and Advances:					
Gross Balances	2,752,843	-	-	-	2,752,843
Less: Provision for Impairment	22,000	-	-	-	22,000
Net Balances	2,730,843	-	-	-	2,730,843
Control, Clearing and Interface Accounts:					
Gross Balances	518,922	-	-	-	518,922
Less: Provision for Impairment	-	-	-	-	-
Net Balances	518,922	-	-	-	518,922

As at 30 June 2018 Receivables of R48,834,181 were past due but not impaired. The age analysis of these Receivables are as follows:

	Current 0 - 30 days	Past Due			Total Past Due
		31 - 60 Days	61 - 90 Days	+ 90 Days	
All Receivables:					
Gross Balances	46,194,203	6,734,646	5,240,110	83,614,006	141,782,964
Less: Provision for Impairment	630,890	2,758,338	5,523,826	84,035,729	92,948,783
Net Balances	45,563,313	3,976,308	(283,716)	(421,724)	48,834,181

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
3.2 Reconciliation of the Provision for Impairment		
Balance at beginning of year	92,948,783	81,975,108
Impairment Losses recognised	3,808,709	21,810,061
Impairment Losses reversed	14,700,908	(10,836,386)
Balance at end of year	111,458,400	92,948,783

In determining the recoverability of Receivables, the municipality has placed strong emphasis on verifying the indigent status of consumers. Provision for impairment of Receivables has been made for all consumer balances outstanding based on the payment ratio over 12 months per service type. No further credit provision is required in excess of the Provision for Impairment.

No provision has been made in respect of government debt as these amounts are considered to be fully recoverable. The municipality holds collateral over these balances in the form of Consumer Deposits / Guarantees, which are not covering the total outstanding debt and vacant property respectively.

3.3 Derecognition of Financial Assets

No Financial Assets have been transferred to other parties during the year.

4. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

	Gross Balances R	Provision for Impairment R	Net Balances R
As at 30 June 2019			
Property Rates	38,146,861	18,090,368	20,056,493
Fines	50,676,807	39,610,451	11,066,356
Total Receivables from Non-exchange Transactions	88,823,668	57,700,819	31,122,849
	Gross Balances R	Provision for Impairment R	Net Balances R
As at 30 June 2018			
Property Rates	35,843,253	16,017,170	19,826,082
Insurance Claims	(197,344)	-	(197,344)
Fines	34,620,208	29,000,102	5,620,106
Other Receivables	1,216,938	-	1,216,938
Total Receivables from Non-exchange Transactions	71,483,054	45,017,273	26,465,782

The municipality does not hold deposits or other security for its Receivables.

None of the Receivables have been pledged as security for the municipality's financial liabilities.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

4.1 Ageing of Receivables from Non-exchange Transactions

As at 30 June 2019

	Current 0 - 30 days	Past Due			Total
		31 - 60 Days	61 - 90 Days	+ 90 Days	
Property Rates:					
Gross Balances	-	8,152,808	1,410,596	28,583,456	38,146,861
Less: Provision for Impairment	-	3,862,827	668,345	13,559,196	18,090,368
Net Balances	-	4,289,982	742,251	15,024,260	20,056,493
Fines:					
Gross Balances	50,676,807	-	-	-	50,676,807
Less: Provision for Impairment	39,610,451	-	-	-	39,610,451
Net Balances	11,066,356	-	-	-	11,066,356

As at 30 June 2019 Receivables of R31,122,849 were past due but not impaired. The age analysis of these Receivables are as follows:

	Current 0 - 30 days	Past Due			Total
		31 - 60 Days	61 - 90 Days	+ 90 Days	
All Receivables:					
Gross Balances	50,676,807	8,152,808	1,410,596	28,583,456	88,823,668
Less: Provision for Impairment	39,610,451	3,862,827	668,345	13,559,196	57,700,819
Net Balances	11,066,356	4,289,982	742,251	15,024,260	31,122,849

As at 30 June 2018

	Current 0 - 30 days	Past Due			Total
		31 - 60 Days	61 - 90 Days	+ 90 Days	
Property Rates:					
Gross Balances	6,919,874	1,323,652	712,068	26,887,658	35,843,253
Less: Provision for Impairment	3,037,176	594,017	319,556	12,066,421	16,017,170
Net Balances	3,882,699	729,634	392,512	14,821,237	19,826,082
Insurance Claims:					
Gross Balances	(197,344)	-	-	-	(197,344)
Less: Provision for Impairment	-	-	-	-	-
Net Balances	(197,344)	-	-	-	(197,344)
Fines:					
Gross Balances	34,620,208	-	-	-	34,620,208
Less: Provision for Impairment	29,000,102	-	-	-	29,000,102
Net Balances	5,620,106	-	-	-	5,620,106
LGSETA Interns:					
Gross Balances	1,216,938	-	-	-	1,216,938
Less: Provision for Impairment	-	-	-	-	-
Net Balances	1,216,938	-	-	-	1,216,938

As at 30 June 2018 Receivables of R26,465,782 were past due but not impaired. The age analysis of these Receivables are as follows:

	Current 0 - 30 days	Past Due			Total
		31 - 60 Days	61 - 90 Days	+ 90 Days	
All Receivables:					
Gross Balances	42,559,676	1,323,652	712,068	26,887,658	71,483,054
Less: Provision for Impairment	32,037,278	594,017	319,556	12,066,421	45,017,273
Net Balances	10,522,398	729,634	392,512	14,821,237	26,465,782

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
4.2 Reconciliation of Provision for Impairment		
Balance at beginning of year	45,017,273	29,260,982
Impairment Losses recognised	12,683,546	15,752,366
Impairment Losses reversed	-	3,925
	-	-
Balance at end of year	57,700,819	45,017,273

The Provision for Impairment on Receivables exists predominantly due to the possibility that these debts will not be recovered. The Provision for Impairment was calculated after grouping all the financial assets of similar nature and risk ratings and assessing the recoverability. No Provision for Impairment has been made in respect of government debt as these amounts are considered to be fully recoverable. The municipality holds collateral over these balances in the form of Rates Assessment Deposits / Guarantees, which are not covering the total outstanding debt and vacant property respectively.

5. VAT RECEIVABLE

Vat Receivable	39,212,651	22,713,472
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Vat is payable on the receipts basis. Only once payment is received from debtors, VAT is paid over to SARS.

Furthermore, Vat is claimable on the payment basis.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. .

6. CASH AND CASH EQUIVALENTS

	2019 R	2018 R
Current Investments	200,626,600	90,054,858
Bank Accounts	13,600,946	4,259,846
Cash and Cash Equivalents	421	421
Total Bank, Cash and Cash Equivalents	214,227,967	94,315,125

For the purposes of the Statement of Financial Position and the Cash Flow Statement, Cash and Cash Equivalents include Cash-on-Hand, Cash in Banks and Investments in Money Market Instruments, net of outstanding Bank Overdrafts.

6.1 Current Investment Deposits

Call Deposits	200,626,600	90,054,858
Total Current Investment Deposits	200,626,600	90,054,858

Call Deposits are investments with a maturity period of less than 3 months and earn interest rates varying from 5.00 % to 10.00 % (2018: 5.00 % to 10.00 %) per annum.

Deposits attributable to Unspent Conditional Grants	103,445,548	6,941,508
Deposits: General investments	97,181,052	83,113,350
Total Deposits attributable to Commitments of the Municipality	200,626,600	90,054,858

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

6.2 Bank Accounts

Cash in Bank	13,600,946	4,259,846
Total Bank Accounts	<u>13,600,946</u>	<u>4,259,846</u>

The Municipality has the following bank accounts:

Primary Bank Account

Cash book balance at beginning of year	4,259,846	5,694,930
Cash book balance at end of year	<u>13,600,946</u>	<u>4,259,846</u>

First National Bank - Jeffreys bay Branch-Account Number: 52540020791

Bank statement balance at beginning of year	524,889	783,359
Bank statement balance at end of year	<u>11,217,561</u>	<u>524,889</u>

First National Bank - Jeffreys bay Branch-Account Number: 52540033304

Bank statement balance at beginning of year	3,734,959	4,648,585
Bank statement balance at end of year	<u>2,383,385</u>	<u>3,734,959</u>

The municipality does not have any overdrawn current account facilities with its banker and therefore does not incur interest on overdrawn current accounts. Interest is earned at different rates per annum on favourable balances.

6.3 Cash and Cash Equivalents

Cash Floats and Advances	421	421
Total Cash on hand in Cash Floats, Advances and Equivalents	<u>421</u>	<u>421</u>

The municipality did not pledge any of its Cash and Cash Equivalents as collateral for its financial liabilities.

No restrictions have been imposed on the municipality in terms of the utilisation of its Cash and Cash Equivalents.

	2019 R	2018 R
7. OPERATING LEASE RECEIVABLES		
Operating Leases are recognised on the straight-line basis as per the requirement of GRAP 13. In respect of Non-cancellable Operating Leases the following assets have been recognised:		
Balance at beginning of year	269,124	281,727
Operating Lease - Straightlining	(34,759)	(12,603)
Total Operating Lease Receivables	<u>234,365</u>	<u>269,124</u>

7.1 Leasing Arrangements

The Municipality as Lessor:

Operating Leases relate to Property owned by the municipality with lease terms of between 1 to 99 years, with an option to extend.

All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

7.2 Amounts receivable under Operating Leases

At the Reporting Date the following minimum lease payments were receivable under Non-cancellable Operating Leases for Property, Plant and Equipment, which are receivable as follows:

Up to 1 year	360,075	368,756
2 to 5 years	1,311,975	1,225,014
More than 5 years	-	148,262
Total Operating Lease Arrangements	<u>1,672,050</u>	<u>1,742,032</u>

The impact of charging the escalations in Operating Leases on a straight-line basis over the term of the lease has been an increase of R34,759 (2018: decrease of R12,603) in current year income.

8. CURRENT PORTION OF LONG-TERM RECEIVABLES

Staff Related Long Term Receivables	3,000	3,000
Total Current Portion of Long-term Receivables	<u>3,000</u>	<u>3,000</u>

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

9 PROPERTY, PLANT AND EQUIPMENT

30 June 2019

Reconciliation of Carrying Value

Description	Land	Buildings	Infra-structure	Community	Other	Transport Assets	Leased Assets	Total
	R	R	R	R	R	R	R	R
Carrying values at 01 July 2018	239,770,877	50,643,734	1,662,750,527	22,456,565	9,857,862	13,886,707	1,897,577	2,001,263,850
Cost	239,770,877	51,894,187	2,209,348,917	24,044,983	30,419,333	42,332,242	4,687,823	2,602,498,362
- Completed Assets	239,770,877	51,894,187	2,176,701,030	18,231,956	29,831,717	42,332,242	4,687,823	2,563,449,832
- Under Construction	-	-	32,647,887	5,813,027	587,615	-	-	39,048,530
Revaluation	-	-	-	-	-	-	-	-
Accumulated Impairment Losses	-	-	-	(1,587,000)	(392,222)	(574,955)	-	(2,554,177)
Accumulated Depreciation:	-	(1,250,453)	(546,598,390)	(1,418)	(20,169,248)	(27,870,581)	(2,790,245)	(598,680,335)
- Cost	-	(1,250,453)	(546,598,390)	(1,418)	(20,169,248)	(27,870,581)	(2,790,245)	(598,680,335)
- Revaluation	-	-	-	-	-	-	-	-
Acquisition of Assets	-	-	-	-	-	-	-	-
- Cost	-	(476,443)	196,083	-	5,865,236	5,513,711	480,038	11,578,624
- Capital Under Construction	-	-	82,734,553	-	-	-	-	82,734,553
- Revaluation	-	-	-	-	-	-	-	-
Decommissioning and other Liabilities	-	-	(60,260)	-	-	-	-	(60,260)
Increases/Decreases in Revaluation	-	-	-	-	-	-	-	-
Depreciation:	-	(552,769)	(68,021,459)	(11,249)	(3,024,327)	(3,685,074)	(423,868)	(75,718,745)
- Based on Cost	-	(552,769)	(68,021,459)	(11,249)	(3,024,327)	(3,685,074)	(423,868)	(75,718,745)
- Based on Revaluation	-	-	-	-	-	-	-	-
Carrying value of Disposals:	-	-	(29,491)	-	(64,445)	(27,981)	-	(121,916)
- Cost	-	-	(43,545)	-	(163,183)	(177,426)	-	(384,154)
- Accumulated Depreciation	-	-	14,054	-	98,738	149,446	-	262,238
- Based on Cost	-	-	14,054	-	98,738	149,446	-	262,238
Impairment Losses	-	(879,000)	-	-	-	-	-	(879,000)
Capital under Construction - Completed	-	-	(22,565,974)	-	-	-	-	(22,565,974)
Other Movements	-	2,188,163	20,377,811	-	-	-	-	22,565,974
- Cost	-	2,188,163	20,377,811	-	-	-	-	22,565,974
Carrying values at 30 June 2019	239,770,877	50,923,685	1,675,381,790	22,445,317	12,634,326	15,687,363	1,953,747	2,018,797,106
Cost	239,770,877	53,605,907	2,289,987,585	24,044,983	36,121,386	47,668,527	5,167,861	2,696,367,125
- Completed Assets	239,770,877	53,605,907	2,197,171,120	18,231,956	35,533,770	47,668,527	5,167,861	2,597,150,017
- Under Construction	-	-	92,816,465	5,813,027	587,615	-	-	99,217,108
Revaluation	-	-	-	-	-	-	-	-
Accumulated Impairment Losses	-	(879,000)	-	(1,587,000)	(392,222)	(574,955)	-	(3,433,177)
Accumulated Depreciation:	-	(1,803,223)	(614,605,795)	(12,666)	(23,094,837)	(31,406,209)	(3,214,113)	(674,136,842)
- Cost	-	(1,803,223)	(614,605,795)	(12,666)	(23,094,837)	(31,406,209)	(3,214,113)	(674,136,842)
- Revaluation	-	-	-	-	-	-	-	-

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

9 PROPERTY, PLANT AND EQUIPMENT (Continued)

30 June 2018

Reconciliation of Carrying Value

Description	Land	Buildings	Infra-structure	Community	Other	Transport Assets	Leased Assets	Total
	R	R	R	R	R	R	R	R
Carrying values at 01 July 2017	237,312,877	51,196,504	1,700,529,116	17,894,500	6,297,951	10,059,260	4,603,826	2,027,894,034
Cost	237,312,877	51,894,187	2,180,909,257	17,894,500	25,212,554	35,800,999	8,035,195	2,557,059,569
- Completed Assets	237,312,877	51,894,187	2,105,068,215	17,894,500	25,212,554	35,800,999	8,035,195	2,481,218,527
- Under Construction	-	-	75,841,042	-	-	-	-	75,841,042
Accumulated Impairment Losses	-	-	-	-	(392,222)	(574,955)	-	(967,177)
Accumulated Depreciation:	-	(697,684)	(480,380,141)	-	(18,522,380)	(25,166,785)	(3,431,369)	(528,198,358)
- Cost	-	(697,684)	(480,380,141)	-	(18,522,380)	(25,166,785)	(3,431,369)	(528,198,358)
- Revaluation	-	-	-	-	-	-	-	-
Decommissioning and other Liabilities	-	-	15,264	-	-	-	-	15,264
Acquisition of Assets								
- Cost	2,458,000	-	5,231,885	337,456	4,936,238	6,953,059	-	19,916,637
- Capital Under Construction	-	-	29,047,570	6,150,483	587,615	-	-	35,785,668
- Revaluation	-	-	-	-	-	-	-	-
Increases/Decreases in Revaluation	-	-	-	-	-	-	-	-
Depreciation:	-	(552,769)	(66,421,962)	(1,418)	(1,903,511)	(2,973,233)	(1,608,542)	(73,461,435)
- Based on Cost	-	(552,769)	(66,421,962)	(1,418)	(1,903,511)	(2,973,233)	(1,608,542)	(73,461,435)
- Based on Revaluation	-	-	-	-	-	-	-	-
Carrying value of Disposals:	-	-	(419,460)	-	(60,431)	(152,380)	(1,097,706)	(1,729,976)
- Cost	-	-	(623,172)	-	(317,074)	(421,816)	(3,347,372)	(4,709,434)
- Accumulated Depreciation	-	-	203,713	-	256,643	269,436	2,249,666	2,979,458
- Based on Cost	-	-	203,713	-	256,643	269,436	2,249,666	2,979,458
- Based on Revaluation	-	-	-	-	-	-	-	-
Impairment Losses	-	-	-	(1,587,000)	-	-	-	(1,587,000)
Capital under Construction - Completed	-	-	(72,240,725)	(337,456)	-	-	-	(72,578,180)
Other Movements	-	-	67,008,839	-	-	-	-	67,008,839
- Cost	-	-	67,008,839	-	-	-	-	67,008,839
Carrying values at 30 June 2018	239,770,877	50,643,734	1,662,750,527	22,456,565	9,857,862	13,886,707	1,897,577	2,001,263,850
Cost	239,770,877	51,894,187	2,209,348,917	24,044,983	30,419,333	42,332,242	4,687,823	2,602,498,362
- Completed Assets	239,770,877	51,894,187	2,176,701,030	18,231,956	29,831,717	42,332,242	4,687,823	2,563,449,832
- Under Construction	-	-	32,647,887	5,813,027	587,615	-	-	39,048,530
Revaluation	-	-	-	-	-	-	-	-
Accumulated Impairment Losses	-	-	-	(1,587,000)	(392,222)	(574,955)	-	(2,554,177)
Accumulated Depreciation:	-	(1,250,453)	(546,598,390)	(1,418)	(20,169,248)	(27,870,581)	(2,790,245)	(598,680,335)
- Cost	-	(1,250,453)	(546,598,390)	(1,418)	(20,169,248)	(27,870,581)	(2,790,245)	(598,680,335)
- Revaluation	-	-	-	-	-	-	-	-

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
9 PROPERTY, PLANT AND EQUIPMENT (Continued)		
9.1 Gross Carrying Amount of Property, Plant and Equipment that is fully depreciated and still in use		
There are no Property, Plant and Equipment that is fully depreciated at year-end and still in use by the municipality.		
9.2 Carrying Amount of Property, Plant and Equipment retired from active use and not classified as a Discontinued Operation		
No Property, Plant and Equipment were retired from active use and not classified as a Discontinued Operation during the financial year.		
9.3 Assets pledged as security		
The municipality did not pledge any of its assets as security.		
9.4 Impairment of Property, Plant and Equipment		
Impairment Losses on Property, Plant and Equipment to the amount of R0 (2018: R-1,587,000) has been recognised in operating surplus and are included in Impairment Losses in the Statement of Financial Performance as indicated in Note 33.		
9.5 Change in Estimate - Useful Life of Property, Plant and Equipment reviewed		
There were no changes in the estimated useful lives of assets of the municipality for the financial year.		
9.6 Land and Buildings carried at Fair Value		
The municipality's Land and Buildings are accounted for according to the cost model and therefore no fair value has been determined.		
9.7 Delayed Projects		
No projects that are currently in progress are experiencing significant delays. No projects for the period was halted.		
9.8 Compensation received for Losses		
Compensation, included in Operating Surplus, was received from the municipality's insurers for Property, Plant and Equipment lost during the year:		
Compensation received from insurers	162,375	751,380
Carrying value of lost assets	(121,916)	(632,170)
Surplus / (Deficit) on Compensation received for Lost PPE	40,459	119,209

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
9.9 Expenditure incurred to repair and maintain		
The following specific costs included in the amount of repairs and maintenance were incurred by municipality during the reporting period:		
Capital Spares	-	9,649
Electrical Infrastructure	5,941,124	6,030,364
Roads Infrastructure	16,031,616	4,749,701
Sanitation Infrastructure	3,249,016	2,567,132
Storm water Infrastructure	773,977	1,421,018
Water Supply Infrastructure	3,043,705	2,554,147
Biological or Cultivated Assets	-	78,844
Community Assets	2,920,636	1,944,922
Machinery and Equipment	364,780	47,862
Other Assets - Buildings	5,169,718	1,037,424
Transport Assets	8,680,420	7,798,372
	46,259,139	28,239,435

10 INTANGIBLE ASSETS

At Cost less Accumulated Amortisation and Accumulated Impairment Losses	243,850	301,768
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The movement in Intangible Assets is reconciled as follows:

Carrying values at 01 July	301,769	62,225
Cost	575,905	190,905
Accumulated Amortisation	(274,136)	(128,680)
Acquisitions:	47,738	385,000
Purchased	47,738	-
Work-in-Progress	-	385,000
Amortisation:	(105,658)	(145,456)
Transfers:	-	-
At Cost	-	385,000
Work-in-Progress	-	(385,000)
Carrying values at 30 June	243,850	301,769
Cost	623,643	575,905
Accumulated Amortisation	(379,793)	(274,136)

The amortisation expense has been included in the line item "Depreciation and Amortisation" in the Statement of Financial Performance (see Note 32).

All of the municipality's Intangible Assets are held under freehold interests and no Intangible Assets had been pledged as security for any liabilities of the municipality.

No restrictions apply to any of the Intangible Assets of the municipality.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

10.1 Intangible Assets with Indefinite Useful Lives

The municipality amortises all its Intangible Assets and no such assets are regarded as having indefinite useful lives.

The useful lives of the Intangible Assets remain unchanged from the previous year.

10.2 Impairment of Intangible Assets

No impairment losses have been recognised on Intangible Assets of the municipality at the reporting date.

10.3 Work-in-Progress

The municipality had no capital projects for Intangible Assets which were not completed at year-end.

10.4 Delayed Projects

No projects that are currently in progress are experiencing significant delays. No projects for the period was halted.

11 INVESTMENT PROPERTY

At Cost less Accumulated Depreciation

2019
R

2018
R

267,726,744

267,726,744

The movement in Investment Property is reconciled as follows:

Carrying values at 1 July

267,726,744

267,726,744

Cost

267,726,744

267,726,744

Acquisitions during the Year

-

-

Carrying values at 30 June

267,726,744

267,726,744

Cost

267,726,744

267,726,744

Cost of Investment Property at 30 June

267,726,744

267,726,744

11.1 Investment Property carried at Fair Value

The municipality's Investment Properties are accounted for according to the cost model and therefore no fair value has been determined.

11.2 Work-in-Progress

The municipality had no capital projects for Investment Property which were not completed at year-end.

11.3 Delayed Projects

No projects that are currently in progress are experiencing significant delays. No projects for the period was halted.

11.8 Expenditure incurred to repair and maintain

No expenditure was incurred in the current or prior period to Repair and Maintain Investment Property

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
12 LONG-TERM RECEIVABLES		
Staff Related Long Term Receivables	16,000	19,000
Total Long Term Receivables	<u>16,000</u>	<u>19,000</u>
Less: Current Portion transferred to Current Receivables:-	3,000	3,000
Finance Lease Receivable	-	-
Staff Related Long Term Receivables	<u>3,000</u>	<u>3,000</u>
Staff Related Long Term Receivables	<u>13,000</u>	<u>16,000</u>
Non-Current Portion of Long Term Receivables	<u>13,000</u>	<u>16,000</u>

No Long-term Receivables have been pledged as security for the municipality's financial liabilities.

The management of the municipality is of the opinion that the carrying value of Long-term Receivables recorded at amortised cost in the Annual Financial Statements approximate their fair values due to the effect of discounting at market related rate not material.

13 CONSUMER DEPOSITS

Electricity	10,563,805	9,640,934
Water	1,728,648	1,557,171
Other Deposits	<u>5,085,670</u>	<u>4,042,764</u>
Total Consumer Deposits	<u>17,378,122</u>	<u>15,240,869</u>

Consumer Deposits - Electricity and Water

Consumer Deposits are paid by consumers on application for new water and electricity connections. The deposits are repaid when the water and electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account.

Other Deposits

Other Deposits relates to deposits for Building Plans and rental properties

No interest is paid on Consumer Deposits held.

14 PROVISIONS

Performance Bonus	2,296,662	1,220,196
Current Portion of Employee Benefit Liabilities (See Note 18):	5,510,644	5,086,000
Post-retirement Medical Aid Benefits Liability	<u>2,982,243</u>	<u>3,083,000</u>
Long-term Service Liability	<u>2,528,401</u>	<u>2,003,000</u>
Current Portion of Non-Current Provisions (See Note 19):	21,841,494	18,198,414
Decommissioning, Restoration and Similar Liabilities: Landfill Sites	<u>2,793,944</u>	<u>2,670,650</u>
Decommissioning, Restoration and Similar Liabilities: Environmental Clean-up	<u>2,000,000</u>	<u>500,000</u>
Ex-gratia Pension	<u>21,048</u>	<u>61,000</u>
Leave	<u>17,026,502</u>	<u>14,966,764</u>
Total Provisions	<u>29,648,800</u>	<u>24,504,611</u>

The movement in provisions is reconciled as follows:

Current Provisions:

Performance Bonus:

Opening Balance	1,220,196	898,174
Increases	1,076,466	322,022
Balance at end of year	<u>2,296,662</u>	<u>1,220,196</u>

Performance Bonuses accrue to senior managers on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	Medical Aid	Long-term Service
	R	R
30 June 2019		
Opening Balance	3,083,000	2,003,000
Current service cost	2,982,243	2,528,401
Actual employer benefit payments	(3,083,000)	-
Actuarial loss/ (gain) recognised in the year	-	(2,003,000)
Balance at end of year	<u>2,982,243</u>	<u>2,528,401</u>

	Medical Aid	Long-term Service
	R	R
30 June 2018		
Opening Balance	2,776,000	1,606,000
Current service cost	3,083,000	2,003,000
Actual employer benefit payments	(2,776,000)	(1,606,000)
Balance at end of year	<u>3,083,000</u>	<u>2,003,000</u>

Current Portion of Non-Current Provisions:

Staff Benefit Provisions:

	Leave Provision	Ex-gratia Pension
	R	R
30 June 2019		
Opening Balance	14,966,764	61,000
Increases	2,059,738	21,048
Other Reductions	-	(61,000)
Balance at end of year	<u>17,026,502</u>	<u>21,048</u>

	Leave Provision	Ex-gratia Pension
	R	R
30 June 2018		
Opening Balance	14,561,561	61,000
Increases	405,203	61,000
Other Reductions	-	(61,000)
Balance at end of year	<u>14,966,764</u>	<u>61,000</u>

Other Operational Provisions:

	Decommission-ing of Landfill Sites	Environmental Clean- up
	R	R
30 June 2019		
Opening Balance	2,670,650	500,000
Increases	2,793,944	1,500,000
Reversals	(2,670,650)	-
Balance at end of year	<u>2,793,944</u>	<u>2,000,000</u>

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	Decommission-ing of Landfill Sites	Environmental Clean- up
	R	R
30 June 2018		
Opening Balance	2,541,534	200,000
Increases	2,670,650	300,000
Reversals	(2,541,534)	-
Balance at end of year	2,670,650	500,000
	2019	2018
	R	R
15 PAYABLES FROM EXCHANGE TRANSACTIONS		
Advance Payments	14,956,402	16,129,451
Bonus	-	(86,664)
Other Payables	12,440,768	8,524,007
Retentions	2,539,496	2,743,214
Salary Related Payables	695,462	559,307
Trade Creditors	53,335,629	98,656,883
Total Payables	83,967,757	126,526,199
16 UNSPENT CONDITIONAL GRANTS AND RECEIPTS		
16.1 Conditional Grants from Government	103,445,548	6,941,508
District Municipalities	-	257,000
National Government	98,082,838	65,500
Provincial Government	5,362,711	6,619,008
Total Conditional Grants and Receipts	103,445,548	6,941,508
The Unspent Conditional Grants and Receipts are invested in investment accounts until utilised.		
See Note 24 for the reconciliation of Grants from Government and Note 24 for the reconciliation of Other Conditional Receipts. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld.		
17 LONG-TERM LIABILITIES		
Long-Term Liabilities	25,420,948	32,544,431
Development Bank of South Africa	23,089,162	30,266,608
Finance Lease Liability	2,331,786	2,277,822
Less: Current Portion transferred to Current Liabilities:-	(9,066,539)	(8,944,035)
Development Bank of South Africa	(7,998,872)	(7,179,508)
Finance Lease Liability	(1,067,666)	(1,764,527)
Non-Current Portion of Long-term Liabilities	16,354,409	23,600,396
17.1 Summary of Arrangements		
The fixed term loan is over a period of 10 years was taken up with the Development Bank of Southern Africa to purchase heavy duty vehicles. In terms of the service level agreement, as amended, the loan will be repaid in monthly instalments at a interest rate of 11.18 %. Interest payments commenced on 30 June 2009.		
The fair value of Long-term Liabilities was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.		
17.2 Obligations under Borrowings		
Annuity and Bullet Loans	15,090,290	23,087,100
Current Portion transferred to Current Liabilities:-	7,998,872	7,179,508
Total Borrowings	23,089,162	30,266,608

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

17.3 Obligations under Leases

The obligations under Finance Leases are as follows:

	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	2019 R	2018 R	2019 R	2018 R
Amounts payable under finance leases:				
Within one year	1,330,082	2,138,905	1,067,666	1,838,441
In the second to fifth years, inclusive	1,458,151	534,726	1,264,123	513,300
	<u>2,788,233</u>	<u>2,673,631</u>	<u>2,331,789</u>	<u>2,351,741</u>
Less: Future Finance Obligations	1,330,082	2,138,905	1,067,666	1,838,441
Present Value of Minimum Lease Obligations	<u>1,458,151</u>	<u>534,726</u>	<u>1,264,123</u>	<u>513,300</u>
			2019 R	2018 R

18 EMPLOYEE BENEFIT LIABILITIES

Employee Benefit Liabilities	100,318,061	101,386,999
Post-retirement Health Care Benefits Liability	83,222,393	86,379,999
Post-retirement Ex-Gratia Benefits Liability	158,159	715,000
Long Service Awards Liability	16,937,509	14,292,000
Less: Current Portion of Employee Benefit Liabilities	(5,510,644)	(5,086,000)
Post-retirement Health Care Benefits Liability	(2,982,243)	(3,083,000)
Long Service Awards Liability	(2,528,401)	(2,003,000)
Non-Current Portion of Employee Benefit Liabilities	<u>94,807,417</u>	<u>96,300,999</u>
18.1 Post-retirement Health Care Benefits Liability		
Opening balance	86,379,999	82,973,999
Current service cost	(74,606)	12,041,000
Actual employer benefit payments	(3,083,000)	(8,635,000)
Balance at end of Year	<u>83,222,393</u>	<u>86,379,999</u>
Transfer to Current Provisions	2,982,243	3,083,000
Total Post-retirement Health Care Benefits Liability	<u>80,240,150</u>	<u>83,296,999</u>

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2019 by Chanan Weiss, Arch Actuarial Consulting. The present value of the defined benefit obligations, and the related current service costs and past service costs, were measured using the Projected Unit Credit Method.

The members of the Post-employment Health Care Benefit Plan are made up as follows:

In-service Members (Employees)	416	415
Continuation Members (Retirees, widowers and orphans)	69	70
Total Members	<u>485</u>	<u>485</u>

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019	2018
	R	R
The liability in respect of past service has been estimated as follows:		
In-service Members	42,352,442	44,592,000
Continuation Members	40,869,951	41,787,999
Total Liability	<u>83,222,393</u>	<u>86,379,999</u>

The municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes:

- Bonitas
- Keyhealth
- LA Health
- Hosmed
- Samwumed

The Current-service Cost for the year ending 30 June 2019 is estimated to be R4 029 000, whereas the cost for the ensuing year is estimated to be R8 306 000 (30 June 2018: R3 864 000 and R8 101 000 respectively).

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount Rate	9.50%	9.79%
Health Care Cost Inflation Rate	6.92%	7.63%
Net Effective Discount Rate	2.41%	2.01%
Expected Retirement Age - Females	62	63
Expected Retirement Age - Males	62	63

Movements in the present value of the Defined Benefit Obligation were as follows:

Opening balance	86,379,999	82,973,999
Interest cost	8,306,000	8,101,000
Current service cost	4,029,000	3,864,000
Benefits paid	(3,083,000)	(2,776,000)
Actuarial losses / (gains)	(12,409,606)	(5,783,000)
Total Recognised Benefit Liability	<u>83,222,393</u>	<u>86,379,999</u>

The amounts recognised in the Statement of Financial Position are as follows:

Present value of fund obligations	<u>83,222,393</u>	<u>86,379,999</u>
Unfunded Accrued Liability	<u>83,222,393</u>	<u>86,379,999</u>
Total Benefit Liability	<u>83,222,393</u>	<u>86,379,999</u>

The history of fair values are as follows:

	2019	2018	2017	2016	2015
	R	R	R	R	R
Present Value of Defined Benefit Obligation	83,222,393	86,379,999	82,973,999	80,918,999	75,054,000
Deficit	<u>83,222,393</u>	<u>86,379,999</u>	<u>82,973,999</u>	<u>80,918,999</u>	<u>75,054,000</u>

The effect of a 1% movement in the assumed rate of health care cost inflation is as follows:

Increase:

Effect on the aggregate of the current service cost and the interest cost	14,731,000	14,731,000
Effect on the defined benefit obligation	97,574,000	101,134,000

Decrease:

Effect on the aggregate of the current service cost and the interest cost	10,427,000	12,734,000
Effect on the defined benefit obligation	71,736,000	87,802,000

The municipality expects to make a contribution of R2,982,243 (2018: R3,083,000) to the Defined Benefit Plans during the next financial year.

Refer to Note 48, "Multi-employer Retirement Benefit Information", to the Annual Financial Statements for more information regarding the municipality's other retirement funds that is Provincially and Nationally administered.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019	2018
	R	R
18.2 Post-retirement Ex-Gratia Benefits Liability		
Opening balance	776,000	803,000
Interest cost	-	73,000
Current service cost	(535,793)	61,000
Actual employer benefit payments	-	(122,000)
Actuarial loss/ (gain) recognised in the year	(61,000)	(39,000)
Balance at end of Year	<u>179,207</u>	<u>776,000</u>
Transfer to Current Provisions	(21,048)	(61,000)
Total Post-retirement Ex-Gratia Benefits Liability	<u>158,159</u>	<u>715,000</u>

The municipality provides certain post - retirement pension benefits to certain retired employees of the municipality. According to the rules of the pension fund, with which the municipality is associated, a member (who is on the current Conditions of Service) on retirement, is entitled to certain pension benefits in which case the municipality is liable for pension payments to retired members for the remainder of their lives.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2019 Chanan Weiss, Arch Actuarial Consulting fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount Rate	7.71%	9.50%
Health Care Cost Inflation Rate	4.09%	6.51%
Net Effective Discount Rate	3.48%	2.81%
Expected Retirement Age - Females	62	63
Expected Retirement Age - Males	62	63

Movements in the present value of the Defined Benefit Obligation were as follows:

Opening balance	776,000	803,000
Interest cost	71,000	73,000
Benefits paid	(61,000)	(61,000)
Actuarial losses / (gains)	(606,793)	(39,000)
Total Recognised Benefit Liability	<u>179,207</u>	<u>776,000</u>

The amounts recognised in the Statement of Financial Position are as follows:

Present value of fund obligations	179,207	776,000
Unfunded Accrued Liability	179,207	776,000
Total Benefit Liability	<u>179,207</u>	<u>776,000</u>

The amounts recognised in the Statement of Financial Performance are as follows:

Interest cost	71,000	73,000
Actuarial losses / (gains)	(606,793)	(39,000)

Total Post-retirement Benefit included in Employee Related Costs (Note 30)

<u>(535,793)</u>	<u>34,000</u>
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The major categories of plan assets, and the expected rate of return at the balance sheet date for each category, are as follows:

The overall expected rate of return is a weighted average of the expected returns of the various categories of plan assets held. The management's assessment of the expected returns is based on historical return trends and analysts' predictions of the market for the asset in the next twelve months.

The plan assets include ordinary shares of International GAAP Holdings Limited with a fair value of R0,38 million (2018: R0,38 million) and property occupied by a subsidiary of International GAAP Holdings Limited with a fair value of R0,62 million (2018: R0,62 million).

The history of experienced adjustments is as follows:

	2019	2018	2017	2016	2015
	R	R	R	R	R
Present Value of Defined Benefit Obligation	179,207	776,000	803,000	924,000	912,000
Deficit	<u>179,207</u>	<u>776,000</u>	<u>803,000</u>	<u>924,000</u>	<u>912,000</u>
Experienced adjustments on Plan Liabilities	(1,189)	(1,189)	2,356,040	41,820	6,739,754

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
The effect of a 1% movement in the assumed rate of health care cost inflation is as follows:		
Increase:		
Effect on the aggregate of the current service cost and the interest cost	69,000	69,000
Effect on the defined benefit obligation	170,228	689,000
Decrease:		
Effect on the aggregate of the current service cost and the interest cost	68,000	68,000
Effect on the defined benefit obligation	189,204	828,000

Refer to Note , "Multi-employer Retirement Benefit Information", to the Annual Financial Statements for more information regarding the municipality's other retirement funds that is Provincially and Nationally administered.

18.3 Long Service Awards Liability

Opening Balance	14,292,000	13,110,000
Increases	4,648,509	2,788,000
Payments Made	(2,003,000)	(3,212,000)
Reversals	-	1,606,000
Balance at end of Year	<u>16,937,509</u>	<u>14,292,000</u>
Transfer to Current Provisions	(2,528,401)	(2,003,000)
Total Long Service Awards Liability	<u>14,409,108</u>	<u>12,289,000</u>

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a Long-service Award is payable after 10 years of continuous service, and every 5 years of continuous service thereafter to 45 years, to employees. The provision is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2019 by Chanan Weiss, Arch Actuarial Consulting. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

At year end, 857 (2018: 833) employees were eligible for Long-service Awards.

The Current-service Cost for the year ending 30 June 2019 is estimated to be R 1 260 000, whereas the cost for the ensuing year is estimated to be R 1 114 000 (30 June 2018: R1 037 000 and R1 139 000 respectively).

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount Rate	8.03%	8.57%
Cost Inflation Rate	5.49%	5.31%
Net Effective Discount Rate	2.41%	2.13%
Expected Rate of Salary Increase	6.50%	6.31%
Expected Retirement Age - Females	62	63
Expected Retirement Age - Males	62	63

	2019 R	2018 R
Movements in the present value of the Defined Benefit Obligation were as follows:		
Opening Balance	14,292,000	13,110,000
Increases	4,648,509	2,788,000
Payments Made	(2,003,000)	(3,212,000)
Reversals	-	1,606,000
Total Recognised Benefit Liability	<u>16,937,509</u>	<u>14,292,000</u>
The amounts recognised in the Statement of Financial Position are as follows:		
Present value of fund obligations	16,937,509	14,292,000
	<u>16,937,509</u>	<u>14,292,000</u>
Unfunded Accrued Liability	16,937,509	14,292,000
Total Benefit Liability	<u>16,937,509</u>	<u>14,292,000</u>

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

The amounts recognised in the Statement of Financial Performance are as follows:

Current service cost	4,648,509	2,788,000
Interest cost	-	(3,212,000)

Total Post-retirement Benefit included in Employee Related Costs (Note 30)

4,648,509	(424,000)
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The history of experienced adjustments is as follows:

	2019 R	2018 R	2017 R	2016 R	2015 R
Present Value of Defined Benefit Obligation	16,937,509	14,292,000	13,110,000	11,442,000	13,415,000
Deficit	16,937,509	14,292,000	13,110,000	11,442,000	13,415,000

The effect of a 1% movement in the assumed rate of long service cost inflation is as follows:

Increase:

Effect on the aggregate of the current service cost and the interest cost	2,398,000	2,398,000
Effect on the defined benefit obligation	16,034,000	13,586,000

Decrease:

Effect on the aggregate of the current service cost and the interest cost	2,399,000	2,399,000
Effect on the defined benefit obligation	17,944,000	15,704,000

The municipality expects to make a contribution of R2,528,401 (2018: R4,648,509) to the defined benefit plans during the next financial year.

19 NON-CURRENT PROVISIONS

Decommissioning, Restoration and Similar Liabilities: Landfill Sites	68,585,204	65,627,734
Provision for Environmental Cleanup	52,200	52,200

Total Non-current Provisions

68,637,404	65,679,934
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The movement in Non-current Provisions are reconciled as follows:

Other Operational Provisions:

	Decommission-ing of Landfill Sites R	Environmental Cleanup R
30 June 2019		
Opening Balance	65,627,734	52,200
Increases	2,957,470	-
Balance at end of year	68,585,204	52,200
	2019 R	2018 R
	Decommission-ing of Landfill Sites R	Environmental Cleanup R
30 June 2018		
Opening Balance	62,413,610	52,200
Increases	3,214,124	-
Balance at end of year	65,627,734	52,200

20 ACCUMULATED SURPLUS

Accumulated Surplus / (Deficit) due to the results of Operations	2,215,786,541	2,100,836,677
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Total Accumulated Surplus

2,215,786,541	2,100,836,677
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Refer to Statement of Changes in Net Assets for more detail and the movement on Accumulated Surplus.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

21 PROPERTY RATES

	Actual Levies	
	July 2019	July 2018
	R000's	R000's
Property Rates Levies	184,331,308	160,619,768
Total Property Rates	184,331,308	160,619,768

21.1 Calculation of Cash Flow:

Property Rates Income	184,331,308	160,619,768
Opening Balance of Debtors: Assessment Rates	19,826,082	17,574,176
Closing Balance of Debtors: Assessment Rates	(20,056,493)	(19,826,082)
Total Receipts for Property Rates	183,999,750	158,367,861

Property Rates are levied on the value of land and improvements, which valuation is performed every four years. The last valuation came into effect on 1 July 2018.

Interim valuations are processed on a continuous basis to take into account changes in individual property values due to alterations and subdivisions.

An general rate is applied as follows to property valuations to determine property rates:

Residential Properties: 0,0078 c/R (2017/18: 0,0072 c/R)

Business Properties: 0,0081 c/R (2017/18: 0,0075 c/R)

Agricultural Properties: 0,0020 c/R (2017/18: 0,0018 c/R)

A Rebate of R15,000 is received on all residential properties, private towns receives an additional 20% on property valuation and equitable share recipients receives an additional R85,000 rebate on property value.

22 FINES, PENALTIES AND FORFEITS

Traffic Fines	20,856,720	34,359,038
Municipal	4,221,605	3,447,452
Service Provider	16,635,116	30,911,585
Other Fines	477,063	473,434
Building	311,014	455,021
Overdue Books Fine	2,049	3,413
Pound Fees	164,000	15,000
Total Fines, Penalties and Forfeits	21,333,783	34,832,471

23 LICENCES AND PERMITS

	2019	2018
	R	R
Boat	3,928,170	3,887,761
Health Certificates	5,980	9,315
Road and Transport	11,693,690	9,507,011
Drivers Licence Application/Duplicate Drivers Licences	3,235,822	2,893,431
Drivers Licence Certificate	4,336,184	708,288
Learners Certificate	1,177,061	886,274
Motor Vehicle Licence	1,970,432	4,384,152
Operators and Public Drivers Permits	974,192	634,866
Trading	164,947	142,767
Total Licences and Permits	15,792,788	13,546,854

24 TRANSFERS AND SUBSIDIES RECEIVED

Capital Grants	94,020,455	37,950,709
Monetary Allocations	94,020,455	37,950,709
Operational Grants	122,879,370	108,897,379
Monetary Allocations	122,879,370	108,897,379
Total Government Grants and Subsidies	216,899,825	146,848,088

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

24.1 Capital Grants

	Monetary Allocations	
	2019	2018
District Municipalities	983,093	3,340,380
National Governments	93,037,362	30,102,329
Provincial Government	-	2,050,000
Total Capital Grants Received	94,020,455	37,950,709

24.2 Operational Grants

	Monetary Allocations	
	2019	2018
District Municipalities	3,332,186	2,353,315
National Governments	4,346,184	3,871,671
National Revenue Fund	113,151,000	102,637,393
Provincial Government	2,050,000	35,000
Total Operational Grants Received	122,879,370	108,897,379

24.3 Calculation of Cash Flow:

Government Grants and Subsidies Income	216,899,825	146,848,088
Opening Balance of Unspent Government Grants	(6,941,508)	(6,406,753)
Closing Balance of Unspent Government Grants	103,445,548	6,941,508
Total Receipts for Government Grants and Subsidies	313,403,865	147,382,843

24.4 Reconciliation per Grant Source

24.4.1 National Governments

Balance unspent at beginning of year	65,500	348,892
Current year receipts	194,639,000	32,974,000
Conditions met - transferred to Revenue	(96,621,662)	(33,257,392)
Other Adjustments/Refunds	-	-
Conditions still to be met - transferred to Liabilities (see Note 16)	98,082,838	65,500

24.4.2 Provincial Government

Balance unspent at beginning of year	6,876,008	6,120,831
Current year receipts - included in Public Health vote	1,206,273	853,147
Conditions met - transferred to Revenue	(2,719,571)	(354,970)
Other Adjustments/Refunds	-	-
Conditions still to be met - transferred to Liabilities (see Note 16)	5,362,711	6,619,008

24.5 Conditional Grants include:

24.6 National: EPWP Grant

Balance unspent at beginning of year	-	-
Current year receipts	1,013,000	1,000,000
Conditions met - transferred to Revenue: Operating Expenses	(1,013,000)	(1,000,000)
Conditions still to be met - transferred to Liabilities (see Note 16)	-	-

The Expanded Public Works Programme Grant was allocated to the municipality for environmental projects. No funds has been withheld.

24.7 National: FMG Grant

Balance unspent at beginning of year	-	-
Current year receipts	1,770,000	1,700,000
Conditions met - transferred to Revenue: Operating Expenses	(1,770,000)	(1,700,000)
Other Adjustments/Refunds	-	-
Conditions still to be met - transferred to Liabilities (see Note 16)	-	-

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial management reforms required by the Municipal Finance Management Act (MFMA), 2003.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

24.8 National: MIG Funds

Balance unspent at beginning of year	-	-
Current year receipts	31,186,000	27,274,000
Conditions met - transferred to Revenue: Capital Expenses	(31,186,000)	(27,274,000)
Conditions still to be met - transferred to Liabilities (see Note 16)	<u>-</u>	<u>-</u>

The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads, basic sewerage and water infrastructure as part of the upgrading of poor households, micro enterprises and social institutions; to provide for new, rehabilitation and upgrading of municipal infrastructure. No funds have been withheld.

24.9 National: WSIG Funds

Balance unspent at beginning of year	-	-
Current year receipts	151,228,000	-
Conditions met - transferred to Revenue: Capital Expenses	(53,210,662)	-
Other Adjustments/Refunds	-	-
Conditions still to be met - transferred to Liabilities (see Note 16)	<u>98,017,338</u>	<u>-</u>

The Water Services Infrastructure Grant is allocated to municipalities to assist in drought relief.

24.10 National: Department of economic development

Balance unspent at beginning of year	65,500	65,500
Conditions still to be met - transferred to Liabilities (see Note 16)	<u>65,500</u>	<u>65,500</u>

No funds have been withheld.

24.11 Provincial Government: Disaster

Balance unspent at beginning of year	-	-
Current year receipts	-	1,090,000
Conditions met - transferred to Revenue: Operating Expenses	-	(1,090,000)
Conditions still to be met - transferred to Liabilities (see Note 16)	<u>-</u>	<u>-</u>

No funds has been withheld.

24.12 National: Department Energy (INEP)

Balance unspent at beginning of year	-	283,392
Current year receipts	10,200,000	4,000,000
Conditions met - transferred to Revenue: Capital Expenses	(10,200,000)	(4,000,000)
Other Adjustments/Refunds	-	(283,392)
Conditions still to be met - transferred to Liabilities (see Note 16)	<u>-</u>	<u>-</u>

Expenses were incurred to promote rural development and upgrade electricity infrastructure. No funds have been withheld.

24.13 Provincial: Department Human Settlement (Houses)

Balance unspent at beginning of year	6,876,008	6,876,008
Current year receipts	1,206,273	-
Conditions met - transferred to Revenue: Capital Expenses	(2,719,571)	-
Conditions still to be met - transferred to Liabilities (see Note 16)	<u>5,362,711</u>	<u>6,876,008</u>

This grant is for the building of low cost housing. The municipality is only the agent of the department of human settlements for the construction of low cost houses. No funds have been withheld.

25 SERVICE CHARGES

Sale of Electricity	242,848,390	216,313,708
Sale of Water	75,590,711	64,068,053
Refuse Removal	50,819,126	42,155,385
Sewerage and Sanitation Charges	44,022,707	37,814,972
Total Service Charges	<u>413,280,935</u>	<u>360,352,117</u>

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

25.1 Calculation of Cash Flow:

Service Charges Income	413,280,935	360,352,117
Opening Balance of Debtors: Service Charges	141,782,964	124,435,221
Closing Balance of Debtors: Service Charges	(169,720,049)	(141,782,964)
Amounts written-off as uncollectable	(12,838,072)	(11,905,902)
Total Receipts for Service Charges	372,505,778	331,098,472

The amounts disclosed above for revenue from Service Charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.

	2019 R	2018 R
26 SALES OF GOODS AND RENDERING OF SERVICES		
Application Fees for Land Usage	428,178	72,779
Building Plan Approval	2,352,796	2,159,113
Camping Fees	2,050,842	2,306,098
Cemetery and Burial	322,105	391,669
Cleaning and Removal	2,631	1,704
Encroachment Fees	14,313	104,358
Fire Services	17,634	8,481
Legal Fees	182,591	1,635,154
Photocopies and Faxes	67,508	83,484
Removal of Restrictions	248,770	10,946
Sale of Goods	71,478	1,622,317
Scrap, Waste & Other Goods	765	-
Town Planning and Servitudes	79,276	299,631
Valuation Services	332,125	138,641
Total Sales of Goods and Rendering of Services	6,171,011	8,834,374

27 RENTAL FROM FIXED ASSETS

Straight-lined Operating Lease Revenue

Other Fixed Assets	609,214	614,198
Property Plant and Equipment	609,214	614,198

Total Rental of Facilities and Equipment

609,214	614,198
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Rental revenue earned on Facilities and Equipment is in respect of Non-financial Assets rented out.

28 INTEREST, DIVIDENDS AND RENT ON LAND EARNED

Non-exchange Receivables:

Outstanding Billing Debtors	1,325,934	1,125,936
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Total Non-exchange Interest Earned

1,325,934	1,125,936
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External Investments:

Bank Account	2,034,071	1,290,623
Investments	9,912,622	7,461,125

11,946,693	8,751,748
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Outstanding Exchange Receivables:

Outstanding Billing Debtors	6,962,074	5,658,240
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Total Exchange Interest Earned

18,908,767	14,409,988
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Total Interest, Dividends And Rent On Land Earned

20,234,700	15,535,924
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28.1 Calculation of Cash Flow:

Interest on Bank Accounts	2,034,071	1,290,623
Interest on Investments	9,912,622	7,461,125
Total Receipts for Interest Received	11,946,693	8,751,748

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019	2018
	R	R
29 OPERATIONAL REVENUE		
Commission	462,009	423,677
Debt Write-Offs and Discounts	55,810,973	-
Insurance Refund	(230,171)	747,758
Skills Development Levy Refund	1,203,801	-
Staff Recoveries	18,485	95,945
Total Operational Revenue	57,265,097	1,267,381

Debt write-offs and discounts relate to Bulk Water purchases from the Nelson Mandela Bay Municipality. During the year, the nature of the transaction changed as such that it was reclassified as a Contingent Liability. This is mainly due to the prescription of the debt, and a technical opinion on the matter.

29.1 Calculation of Cash Flow:

Income from Operational Revenue	Note 29	57,265,097	1,267,381
Income from Interest on Outstanding Exchange Receivables	Note 28	-	-
Income from Interest on Outstanding Non-exchange Receivables	Note 28	-	-
Minus: Insurance Receipts	Note 29	230,171	(747,758)
Income from Rental from Fixed Assets	Note 27	609,214	614,198
Income from Sales of Goods and Rendering of Services	Note 26	6,171,011	8,834,374
Income from Licences and Permits	Note 23	15,792,788	13,546,854
Income from Fines, Penalties and Forfeits	Note 22	21,333,783	34,832,471
Opening Balance of Debtors: Non-exchange Transactions	Note 4	71,483,054	60,262,631
Opening Balance of Debtors: Assessment Rates	Note 4	(35,843,253)	(35,163,570)
Closing Balance of Debtors: Non-exchange Transactions	Note 4	(88,823,668)	(71,483,054)
Closing Balance of Debtors: Assessment Rates	Note 4	38,146,861	35,843,253
Amounts written-off as uncollectable	Note 4	-	-
Reversal of Fines Debtors	Note 5	-	(25,099,061)
Opening Balance of Operating Lease Receivables	Note 7	269,124	281,727
Closing Balance of Operating Lease Receivables	Note 7	(234,365)	(269,124)
Opening Balance of Current Portion of Long-term Receivables	Note 8	3,000	3,000
Closing Balance of Current Portion of Long-term Receivables	Note 8	(3,000)	(3,000)
Opening Balance of Consumer Deposits	Note 14	(15,240,869)	(13,567,024)
Closing Balance of Consumer Deposits	Note 14	17,378,122	15,240,869
Total Receipts for Other Revenue		88,537,072	24,394,165

30 EMPLOYEE RELATED COSTS

Salaries and Wages			
Basic	165,865,539	145,973,947	
Long Service Awards	946,433	825,217	
Bonusses	1,076,466	324,579	
Leave Payments	1,590,718	2,313,551	
Overtime	26,376,406	20,434,525	
Allowances			
Acting and Post Related Allowances	1,043,282	1,156,173	
Bonus Allowance	12,116,643	11,300,437	
Cellular and Telephone	7,500	26,059	
Housing Benefits	952,831	1,838,206	
Standby Allowance	6,117,348	4,733,327	
Travel or Motor Vehicle	7,775,698	7,247,120	
Social Contributions			
Bargaining Council	1,664,295	1,676,605	
Group Life Insurance	5,762,048	5,053,315	
Medical	14,432,761	13,472,307	
Pension	26,001,803	23,404,067	
Unemployment Insurance	1,477,783	1,436,555	
Post-retirement Benefit			
Current Service Cost	4,029,000	3,864,000	
Interest Cost	8,377,000	8,101,000	
Actuarial (Gains) and Losses	(13,016,399)	(5,783,000)	
Past Service Cost	(3,144,000)	(2,803,000)	
Long Term Service Awards	2,645,509	1,182,000	
Total Employee Related Costs	274,158,400	245,776,991	

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

30.1 Calculation of Cash Flow:	2019	2018
	R	R
Employee Related Costs Expenditure	274,158,400	245,776,991
Opening Balance of Current Employee Benefit Liabilities Note 14	5,086,000	4,382,000
Closing Balance of Current Employee Benefit Liabilities Note 14	(5,510,644)	(5,086,000)
Opening Balance of Current Staff Benefit Provisions Note 14	15,027,764	14,622,561
Closing Balance of Current Staff Benefit Provisions Note 14	(17,047,550)	(21,333,961)
Opening Balance of Non-current Employee Benefit Liabilities Note 18	96,300,999	92,444,000
Closing Balance of Non-current Employee Benefit Liabilities Note 18	(94,807,417)	(96,300,999)
Movement in Performance Bonus Provision Note 14	(1,076,466)	(322,022)
Total Payments for Employee Related Costs	272,131,086	234,182,570
No advances were made to employees. Loans to employees are set out in Note 12.		
Remuneration of Section 57 Employees:		
Remuneration of the Municipal Manager		
Annual Remuneration	1,374,625	1,299,280
Car and Other Allowances	117,929	97,938
Company Contributions to UIF, Medical and Pension Funds	19,919	22,532
Total	1,512,473	1,419,749
Remuneration of the Chief Financial Officer: S Thys		
Annual Remuneration	1,283,246	1,217,437
Car and Other Allowances	111,583	109,000
Company Contributions to UIF, Medical and Pension Funds	19,142	19,482
Total	1,413,971	1,345,919
Remuneration of the Director: Community Services - N Machalesi		
Annual Remuneration	1,027,460	241,400
Car and Other Allowances	203,806	45,000
Company Contributions to UIF, Medical and Pension Funds	17,650	5,539
Total	1,248,917	291,939
Remuneration of the Director: Community Services - N Machalesi		
Acting Allowance	-	74,799
	-	74,799
Remuneration of the Acting Director: Community Services - G Louw		
Annual Remuneration	-	326,055
Car and Other Allowances	-	9,768
Company Contributions to UIF, Medical and Pension Funds	-	13,322
Total	-	349,145
Remuneration of Director: Infrastructure and Engineering - V Felton		
Annual Remuneration	1,111,460	1,044,161
Car and Other Allowances	119,588	123,784
Company Contributions to UIF, Medical and Pension Funds	16,774	16,639
Total	1,247,822	1,184,584
Remuneration of Director: Corporate Services - K Moodley		
Annual Remuneration	1,111,460	887,883
Car and Other Allowances	119,545	118,491
Company Contributions to UIF, Medical and Pension Funds	17,190	29,559
Total	1,248,195	1,035,934
Remuneration of Director: Planning, Development and Tourism - F Mabusela		
Annual Remuneration	1,027,460	143,246
Car and Other Allowances	248,187	34,000
Company Contributions to UIF, Medical and Pension Funds	18,607	18,392
Total	1,294,253	195,638
Summary of Remuneration of Section 57 Employees:		
All Managers	7,965,631	5,897,706
Total Remuneration of Section 57 Employees	7,965,631	5,897,706

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019	2018
	R	R
31 REMUNERATION OF COUNCILLORS		
Executive Mayor	731,462	604,077
Speaker	580,894	495,847
Executive Committee Members	2,678,819	2,724,077
Total for All Other Councillors	8,210,992	8,241,882
	<u>12,202,166</u>	<u>12,065,883</u>
<i>In-kind Benefits</i>		
The Executive Mayor, Speaker and all the Mayoral committee members are full-time. The Mayor is provided with secretarial support and an office at the cost of the municipality.		
32 DEPRECIATION AND AMORTISATION		
Depreciation: Property, Plant and Equipment	75,731,632	73,472,345
Amortisation: Intangible Assets	124,187	145,456
Total Depreciation and Amortisation	<u>75,855,819</u>	<u>73,617,801</u>
33 IMPAIRMENT LOSSES		
Impairment Losses on Fixed Assets	-	1,587,000
Impairment Losses on Financial Assets	45,795,529	59,829,231
Fair Value Adjustments	(31,488)	62,545
Total Impairment Losses	<u>45,764,042</u>	<u>61,478,776</u>
34 INTEREST, DIVIDENDS AND RENT ON LAND PAID		
Interest Paid	6,637,780	14,324,358
Borrowings	3,020,625	3,775,682
Finance Leases	422,482	796,045
Interest costs non-current Provisions	3,141,024	3,312,712
Overdue Accounts	53,650	6,439,919
Total Interest, Dividends and Rent on Land	<u>6,637,780</u>	<u>14,324,358</u>
34.1 Calculation of Cash Flow:		
Finance Cost Expenditure	3,020,625	3,775,682
Interest on Finance Leases	-	-
Actual Interest Payment on Payables		
Total Payments for Finance Costs	<u>3,020,625</u>	<u>3,775,682</u>
35 BULK PURCHASES		
Electricity	198,587,027	184,880,508
Water	35,940,380	32,707,822
Total Bulk Purchases	<u>234,527,407</u>	<u>217,588,330</u>
36 CONTRACTED SERVICES		
Outsourced Services	14,341,743	7,036,639
Consultants and Professional Services	11,757,972	10,340,310
Contractors	36,593,975	18,115,505
Total Contracted Services	<u>62,693,690</u>	<u>35,492,455</u>

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

		2019	2018
		R	R
36.1 Outsourced Services			
Animal Care		252,644	-
Burial Services		68,100	23,900
Business and Advisory		8,003,170	2,443,257
Catering Services		380,194	416,016
Cleaning Services		16,000	33,424
Drivers Licence Cards		719,467	323,257
Illegal Dumping		6,957	39,654
Internal Auditors		162,928	787,827
Litter Picking and Street Cleaning		1,396,380	40,591
Medical Services [Medical Health Services & Support]		444,612	400,959
Professional Staff		578,509	305,000
Refuse Removal		1,500	95,080
Security Services		1,030,799	591,860
Traffic Fines Management		1,174,493	1,427,767
Transport Services		105,989	108,047
		14,341,743	7,036,639
36.2 Consultants and Professional Services			
Business and Advisory		4,532,073	4,141,281
Infrastructure and Planning		1,066,000	1,456,570
Laboratory Services		662,321	564,758
Legal Cost		5,497,579	4,177,701
		11,757,972	10,340,310
36.3 Contractors			
Artists and Performers		150,000	-
Auctioneers		7,832	-
Catering Services		2,000	-
Employee Wellness		188,963	4,580
Interior Decorator		10,564	8,426
Maintenance of Buildings and Facilities		7,213,609	1,973,118
Maintenance of Equipment		489,124	221,063
Maintenance of Unspecified Assets		28,442,883	15,893,662
Medical Services		19,800	-
Pest Control and Fumigation		30,400	10,850
Transportation		38,800	3,808
		36,593,975	18,115,505
36.4 Calculation of Cash Flow:			
Expenditure for Inventory Consumed	Note 37	27,381,399	20,594,170
Expenditure for Contracted Services	Note 36	62,693,690	35,492,455
Expenditure for Bulk Purchases	Note 35	234,527,407	217,588,330
Opening Balance of Payables: Exchange Transactions	Note 15	126,526,199	128,559,171
Closing Balance of Payables: Exchange Transactions	Note 15	(83,967,757)	(126,526,199)
Opening Balance of Inventories	Note 2	(6,666,181)	(4,952,364)
Closing Balance of Inventories	Note 2	9,249,357	6,666,181
Total for Suppliers Paid		369,242,373	277,421,744
37 INVENTORY CONSUMED			
Consumables		7,999,136	7,402,856
Materials and Supplies		19,382,263	13,191,314
		27,381,399	20,594,170
38 TRANSFERS AND SUBSIDIES PAID			
Provincial Government		-	372,340
Total Transfers and Subsidies Paid		-	372,340

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

39 OPERATING LEASES

Furniture and Office Equipment	5,783,199	-
Land	-	478,582
Machinery and Equipment	107,047	2,245,652
Other Assets	3,620,131	-
Transport Assets	-	1,300
Total for Operating Leases	9,510,378	2,725,534

40 OPERATIONAL COSTS

Included in General Expenses are the following:

Achievements and Awards	823,472	1,608,413
Advertising, Publicity and Marketing	842,745	811,909
Bank Charges, Facility and Card Fees	2,055,856	588,874
Bargaining Council	2,581,700	2,661,654
Commission	5,229,305	697,557
Communication	2,640,617	4,246,632
Contribution to Provisions	1,540,000	500,000
Courier and Delivery Services	52	33
Deeds	-	(56,050)
External Audit Fees	4,412,076	4,786,064
External Computer Service	5,857,285	3,889,707
Hire Charges	15,218,235	17,059,990
Insurance Underwriting	2,546,605	2,164,842
Licences	646,154	3,340,716
Management Fee	5,784,917	3,368,870
Municipal Services	4,477,544	4,880,801
Printing, Publications and Books	865,399	1,371,851
Professional Bodies, Membership and Subscription	15,625	11,911
Registration Fees	1,453,752	670,592
Remuneration to Ward Committees	2,407,538	1,133,615
Repayment of Forfeited Deposits	-	308,761
Resettlement Cost	198,261	61,729
Samples and Specimens	8,202	-
Search Fees	71,453	90,072
Signage	330,548	9,122
Skills Development Fund Levy	1,687,995	1,425,362
Travel and Subsistence	2,045,503	982,475
Uniform and Protective Clothing	2,057,843	1,321,475
Vehicle Tracking	584,079	571,836
Workmen's Compensation Fund	896,821	986,348
Total Operational Costs	71,487,261	59,495,162

40.1 Calculation of Cash Flow:

Expenditure for Operational Costs	Note 40	(71,487,261)	(59,495,162)
Expenditure for Operating Leases	Note 39	(9,510,378)	(2,725,534)
Expenditure for Transfers and Subsidies Paid	Note 38	-	(372,340)
Opening Balance of Current Other Operating Provisions	Note 14	(3,170,650)	(2,741,534)
Closing Balance of Current Other Operating Provisions	Note 14	4,793,944	3,170,650
Opening Balance of Non-current Other Operating Provisions	Note 19	(65,679,934)	(62,465,810)
Closing Balance of Non-current Other Operating Provisions	Note 19	68,637,404	65,679,934
Other non-cash movements		1,324,357	1,276,925
Total for Other Payments		(75,092,518)	(57,672,872)

40.2 Travel and Subsistence

Domestic	1,551,186	738,843
Accommodation	350,645	293,569
Daily Allowance	19,137	19,013
Food and Beverage (Served)	203,909	-
Transport without Operator	808,300	296,731
Transport with Operator	169,195	129,529
Foreign	261,538	-
Accommodation	10,816	-
Daily Allowance	250,722	-
Non-employees	232,779	243,632
	2,045,503	982,475

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
41 GAINS / LOSSES ON DISPOSAL OF CAPITAL ASSETS		
Property, Plant and Equipment	(750,454)	(1,591,775)
Total Losses on Disposal of Capital Assets	750,454	1,591,775

42 CORRECTION OF ERROR AND RECLASSIFICATION OF ACCOUNTS

A split between reclassifications and prior period errors are provided to ensure that a clear distinction is made between reclassification of items previously incorrectly disclosed within the Annual Financial Statements, whilst items classified as errors are those items which were factual errors in the prior year, affecting the measurement of such items. The title reclassification does not exclude previous judgement errors, but is rather presented separately in order to allow users to understand that these changes were identified as a consequence an exercise to continuously review the accurate disclosure of the nature of transactions.

42.1 Correction of Prior Period Errors

42.2 Reclassification of Accumulated Surplus

The prior year figures of Accumulated Surplus has been restated to correctly disclose the monies held by the municipality in terms of the disclosure notes indicated below.

The effect of the changes are as follows:

		Accumulated Surplus
Balances previously published per AFS as at 30 June 2018		2,101,010,573
Correction of Error:-		
Restatement of Receivables from Exchange Transactions	(2,996,179)	
Restatement of Receivables from Non-Exchange Transactions	(51,382)	
Restatement of Property, Plant and Equipment	2,775,222	
Restatement of Payables from Exchange Transactions	98,443	
Adjustment for Rounding Errors	-	(173,896)
Restatement of 2017/18 Financial Performance		(694,097)
Restatement of 2016/17 Accumulated Surplus		520,201
Restated Balances as at 30 June 2018		2,100,836,677

42.2.1 Correction of Revenue

The effect of the Corrections are as follows:

	Prior Year 2017/178 Audited	Reclassification	Reclassified Amount	Correction of Error	Restated Amount 2017/18
Property Rates	160,671,150	-	160,671,150	(51,382)	160,619,768
Fines, Penalties and Forfeits	34,832,471	-	34,832,471	-	34,832,471
Licences and Permits	13,546,854	-	13,546,854	-	13,546,854
Transfers and Subsidies	144,390,088	-	144,390,088	2,458,000	146,848,088
Interest, Dividends and Rent on Land Earned	1,125,936	-	1,125,936	-	1,125,936
Service Charges	363,348,296	-	363,348,296	(2,996,179)	360,352,117
Sales of Goods and Rendering of Services	8,834,374	-	8,834,374	-	8,834,374
Rental from Fixed Assets	614,198	-	614,198	-	614,198
Interest, Dividends and Rent on Land Earned	14,409,988	-	14,409,988	-	14,409,988
Operational Revenue	1,267,381	-	1,267,381	-	1,267,381
	743,040,736	-	743,040,736	-589,561	742,451,175

42.2.2 Correction of Expenditure

The effect of the Corrections are as follows:

	Prior Year 2017/178 Audited	Reclassification	Reclassified Amount	Correction of Error	Restated Amount 2017/18
Employee Related Costs	245,776,991	-	245,776,991	-	245,776,991
Remuneration of Councillors	12,065,883	-	12,065,883	-	12,065,883
Depreciation and Amortisation	73,526,682	-	73,526,682	91,119	73,617,801
Impairment Losses	61,478,776	-	61,478,776	-	61,478,776
Interest, Dividends and Rent on Land	14,324,358	-	14,324,358	-	14,324,358
Bulk Purchases	217,588,330	-	217,588,330	-	217,588,330
Contracted Services	35,492,455	-	35,492,455	-	35,492,455
Inventory Consumed	20,580,753	-	20,580,753	13,417	20,594,170
Transfers and Subsidies Paid	372,340	-	372,340	-	372,340
Operating Leases	2,725,534	-	2,725,534	-	2,725,534
Operational Costs	59,495,162	-	59,495,162	-	59,495,162
Loss on Disposal of PPE	1,591,775	-	1,591,775	-	1,591,775
	745,019,039	-	745,019,039	104,536	745,123,575

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

42.2.3 Correction of Statement of Financial Position

The effect of the Correction of Error is as follows:

	Prior Year 2017/178 Audited	Reclassification	Reclassified Amount	Correction of Error	Restated Amount 2017/18
Current Assets					
Inventories	6,666,181		6,666,181	-	6,666,181
Receivables from Exchange Transactions	51,830,360		51,830,360	(2,996,179)	48,834,181
Receivables from Non-exchange Transaction	26,517,164		26,517,164	(51,382)	26,465,782
VAT Receivable	22,713,472		22,713,472	-	22,713,472
Cash and Cash Equivalents	94,315,125		94,315,125	-	94,315,125
Operating Lease Receivables	269,124		269,124	-	269,124
Current Portion of Long-term Receivables	3,000		3,000	-	3,000
Non-Current Assets					
Property, Plant and Equipment	1,982,603,128	15,885,500	1,998,488,628	2,775,222	2,001,263,850
Intangible Assets	301,768		301,768	-	301,768
Investment Property	283,612,244	(15,885,500)	267,726,744	-	267,726,744
Long-term Receivables	16,000		16,000	-	16,000
Current Liabilities					
Consumer Deposits	15,240,869		15,240,869	-	15,240,869
Provisions	24,504,611		24,504,611	-	24,504,611
Payables from Exchange Transactions	126,624,642		126,624,642	(98,443)	126,526,199
Unspent Conditional Grants and Receipts	6,941,508		6,941,508	-	6,941,508
Current Portion of Long-term Liabilities	8,944,035		8,944,035	-	8,944,035
Non-Current Liabilities					
Long-term Liabilities	23,600,396		23,600,396	-	23,600,396
Employee Benefit Liabilities	96,300,999		96,300,999	-	96,300,999
Non-current Provisions	65,679,934		65,679,934	-	65,679,934
Net Assets					
Accumulated Surplus / (Deficit)	2,101,010,573		2,101,010,573	(173,896)	2,100,836,677
	2,295,503,936	-	2,295,503,936	- 173,896	2,295,330,041

Opening balances and prior year amounts of items in the Statement of Financial Position have been restated as indicated below:

	Property, Plant and Equipment	Investment Property	Payables from Exchange Transactions
Restated Balance after Reclassifications	1,982,603,128	283,612,244	126,624,642
Relassification of Assets	15,885,500	-15,885,500	-
Correction of PPE Project	421,761	-	-
Recognition of donated Land	2,458,000	-	-
Retention on PPE Project Correction	-	-	-98,443
Correction of Opening Balance of PPE	-104,538	-	-
Restated Balance now reported	2,001,263,850	267,726,744	126,526,199

Property, Plant and Equipment:

Certain prior year amounts for Property, Plant and Equipment has been corrected as per the annually reviewed and revised Asset Register.

Payables from Exchange Transactions:

Prior period amounts for Unspent Grants and Payables from Exchange Transactions has been restated to accurately disclose the nature of transaction related to Housing Grants.

43 CASH GENERATED BY OPERATIONS

Surplus / (Deficit) for the Year	114,949,864	-2,672,400
Adjustment for:		
Correction of Prior Year Errors	-	-
Non-Cash Interest on Debtors	-8,288,008	-6,784,176
Non-Cash Interest on Payables and Provisions	3,194,673	9,752,632
Depreciation and Amortisation	75,855,819	73,617,801
Less: Insurance Payout, classified as Investing Activities	230,171	-747,758
Interest on Finance Leases	422,482	796,045
Impairment Losses on Property, Plant and Equipment	45,764,042	61,478,776
Losses / (Gains) on Disposal of Property, Plant and Equipment	750,454	1,591,775
Movement in Current Employee Benefit Liabilities	424,644	704,000
Movement in Current Staff Benefit Provisions	2,019,786	6,711,400
Movement in Non-current Employee Benefit Liabilities	-1,493,582	3,857,000
Movement in Current Other Operating Provisions	1,623,294	429,116
Movement in Non-current Other Operating Provisions	2,957,470	3,214,124
Movement in Performance Bonus	1,076,466	322,022
Reversal of Fines Debtors prior year	-	-25,099,061
Bad Debts Written-off	-12,838,072	-11,905,902
Operating surplus before working capital changes	226,649,504	115,265,392

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Decrease/(Increase) in Inventories	-2,583,176	-1,713,817
Decrease/(Increase) in Receivables from Exchange Transactions	-27,937,086	-17,347,743
Decrease/(Increase) in Receivables from Non-exchange Transactions	-17,340,613	-11,220,424
Decrease/(Increase) in VAT Receivable	-16,499,179	-11,424,658
Decrease/(Increase) in Operating Lease Receivables	34,759	12,602
Increase/(Decrease) in Consumer Deposits	2,137,254	1,673,845
Increase/(Decrease) in Payables from Exchange Transactions	-42,558,442	-2,032,972
Increase/(Decrease) in Payables from Non-exchange Transactions	-	-0
Increase/(Decrease) in Conditional Grants and Receipts	96,504,040	534,755
Other non-cash movements	3,798,149	-295,299
Cash generated by / (utilised in) Operations	222,205,210	73,451,681

44 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED

44.1 Unauthorised Expenditure

Reconciliation of Unauthorised Expenditure:

Opening balance	-	81,408,523
Approved by Council	-	(81,408,523)
Unauthorised Expenditure awaiting authorisation	-	-

44.2 Fruitless and Wasteful Expenditure

Reconciliation of Fruitless and Wasteful expenditure:

Opening balance	35,839,929	35,338,187
Fruitless and Wasteful Expenditure current year	53,650	501,742
Expenditure investigated and approved by Council	(1,000,416)	-
Fruitless and Wasteful Expenditure awaiting write-off	34,893,163	35,839,929

Incident	Disciplinary Steps / Criminal Proceedings
Interest and penalties on late payment of trade creditors. - R53,650 (2018: R501,742)	Currently None - subject to possible future investigation

44.3 Irregular Expenditure

Restated

Reconciliation of Irregular Expenditure:

Opening balance	98,699,214	98,868,934
- As previously stated	98,699,214	98,868,934
Irregular Expenditure current year	7,660,307	2,399,573
- Current Year	7,660,307	2,399,573
Condoned or written off by Council	(36,425,426)	(2,569,294)
- Prior Year	(36,425,426)	(2,569,294)
Irregular Expenditure awaiting condonement	69,934,096	98,699,214

Incident	Disciplinary Steps / Criminal Proceedings
Invalid deviations - R2,191,131 (2018: R2,399,573)	Still to be investigated.
Expenditure Incurred in excess of contract award amount, in respect to the resealing of Roads. - R5,469,176 (2018: R0)	Under Investigation by MPAC.

45 ADDITIONAL DISCLOSURES IN TERMS OF APPLICABLE LEGISLATION

45.1 MUNICIPAL FINANCE MANAGEMENT ACT

45.1.1 Contributions to organised local government - SALGA

Opening Balance	-	-
Council Subscriptions	2,567,400	2,578,034
Amount Paid - current year	(2,567,400)	(2,578,034)
Amount Paid - previous years	-	-
Balance Unpaid (included in Creditors)	-	-

45.1.2 Audit Fees

Opening Balance	-	809,157
Current year Audit Fee	4,727,142	4,091,413
Amount Paid - current year	(4,727,142)	(4,900,570)
Amount Paid - previous years	-	-
Balance Unpaid (included in Creditors)	-	-

45.1.3 VAT

The net of VAT input payables and VAT output receivables are shown in Note 5. All VAT returns have been submitted by the due date throughout the year.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

45.1.4 PAYE, Skills Development Levy and UIF

Opening Balance	-	-
Current year Payroll Deductions	39,224,626	33,184,866
Amount Paid - current year	(39,224,626)	(33,184,866)

Balance Unpaid (included in Creditors)

-	-
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45.1.5 Pension and Medical Aid Deductions

Opening Balance	-	-
Current year Payroll Deductions and Council Contributions	63,008,498	57,001,741
Amount Paid - current year	(63,008,498)	(57,001,741)

Balance Unpaid (included in Creditors)

-	-
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45.1.6 Councillor's arrear Consumer Accounts

The following Councillors had arrear accounts outstanding for more than 90 days as at:

30 June 2019

	Total	Outstanding more than 90 days
Councillor Februarie ER	136,085	136,085
Total Councillor Arrear Consumer Accounts	136,085	136,085

45.1.7 Non-Compliance with the Municipal Finance Management Act

No known matters existed at the reporting date.

45.1.8 Deviation from, and ratification of minor breaches of, the Procurement Processes

In terms of section 36(2) of the Municipal Supply Chain Management Regulations approved by the council, any deviation from the Supply Chain Management Policy needs to be approved / condoned by the Municipal Manager, noted by Council and bids where the formal procurement processes could not be followed must be noted in the Annual Financial Statements.

The following deviations from the tender stipulations in terms of the municipality's Supply Chain Management Policy were ratified by the Municipal Manager and reported to Council:

30 June 2019

Department	Tenderer	Reason	Amount
Finance	Various (5)	Various reason like impracticality/ urgency/ Continuity and alignment	436,988
Infrastructure & Engineering	Various (76)	Various reason like impracticality/ urgency/ Preferred supplier	34,735,932
Corporate Services	Various (4)	Various reason like impracticality/ urgency/ Sole Supplier	237,022
Office of MM	Various (6)	Various reason like Sole Supplier impracticality/ urgency/ Preferred supplier	349,257
Community Services	Various (35)	Various reason like Sole Supplier impracticality/ urgency/ Preferred supplier	8,646,986
Planning, Development & Tourism	Various (2)	Impracticality	212,290
Total:			44,618,474

30 June 2018

Department	Tenderer	Reason	Amount
Finance	Various (3)	Various reason like impracticality/ urgency/ Continuity and alignment	368,550
Infrastructure & Engineering	Various (66)	Various reason like impracticality/ urgency/ Preferred supplier	8,653,678
Corporate Services	Various (7)	Various reason like impracticality/ urgency/ Sole Supplier	255,125
Community Services	Various (15)	Various reason like Sole Supplier impracticality/ urgency/ Preferred supplier	952,809
Planning, Development & Tourism	Various (2)	Impracticality	95,543
Total:			10,325,705

45.1.9 Bulk Electricity and Water Losses in terms of Section 125 (2)(d)(i) of the MFMA

Material Electricity and Water Losses were as follows and are not recoverable:

Electricity:

		Lost Units	Tariff	Value
30 June 2019	Unaccounted Electricity Losses	28,653,364	1.1088	31,769,449
30 June 2018	Unaccounted Electricity Losses	21,681,312	1.0010	21,702,333

Electricity Losses occur due to *inter alia*, technical and non-technical losses (Technical losses - inherent resistance of conductors, transformers and other electrical equipment; Non-technical losses - the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal electricity connections). The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters are replaced as soon as they are reported.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
Volumes in kWh/year:		
System Input Volume	205,626,242	203,602,562
Billed Consumption	160,522,779	165,633,045
Unaccounted	45,103,464	37,969,517
Normal distribution losses - 8% of electricity purchases	16,450,099	(16,288,205)
	28,653,364	21,681,312
Percentage Distribution Loss	13.93%	10.65%

Water:

		Lost Units	Tariff	Value
30 June 2019	Unaccounted Water Losses	2,395,185	6.8000	16,287,258
30 June 2018	Unaccounted Water Losses	2,918,337	6.2700	18,297,975

Water Losses occur due to *inter alia*, leakages, the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal water connections. The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters and leakages are replaced/repared as soon as they are reported.

	2019 R	2018 R
Volumes in KI/year:		
System Input Volume	7,437,830	8,239,954
Billed Consumption	5,042,645	5,321,617
Distribution Loss	2,395,185	2,918,337
Percentage Distribution Loss	32.20%	35.42%

45.2 BROAD-BASED BALCK ECONOMIC EMPOWERMENT ACT

Information on compliance with the B-BBEE Act is included in the Annual Report under the section titled B-BBEE Compliance Performance Information.

46 COMMITMENTS FOR EXPENDITURE

46.1 Capital Commitments

Commitments in respect of Capital Expenditure:

- Approved and Contracted for:-

Infrastructure
Community
Other

	117,567,900	54,598,299
Infrastructure	112,182,669	44,956,275
Community	3,552,149	3,484,959
Other	1,833,083	6,157,066

This expenditure will be financed from:
Internal and Grant funding

	117,567,900	54,598,299
	117,567,900	54,598,299

47 FINANCIAL INSTRUMENTS

47.1 Classification

FINANCIAL ASSETS:

In accordance with GRAP 104.13 the Financial Assets of the municipality are classified as follows:

<u>Financial Assets</u>	<u>Classification</u>		
Long-term Receivables			
Staff Related Long Term Receivables	Amortised cost	16,000	-
Receivables from Exchange Transactions			
Electricity	Amortised cost	32,434,811	21,331,364
Refuse	Amortised cost	1,602,661	(263,311)
Sewerage	Amortised cost	2,320,953	1,833,644
Other Service Charges	Amortised cost	1,079,398	14,969,536
Water	Amortised cost	10,841,381	7,710,665
Housing Selling Scheme	Amortised cost	-	1,350
Other Debtors	Amortised cost	140,060	1,168
Prepayments and Advances	Amortised cost	5,183,016	2,730,843
Control, Clearing and Interface Accounts	Amortised cost	490,922	518,922

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Receivables from Non-exchange Transactions

Property Rates	Amortised cost	20,056,493	19,826,082
Insurance Claims	Amortised cost	-	(197,344)
Fines	Amortised cost	11,066,356	5,620,106
LGSETA Interns	Amortised cost	(0)	1,216,938

Cash and Cash Equivalents

Call Deposits	Amortised cost	200,626,600	90,054,858
Bank Balances	Amortised cost	13,600,946	4,259,846
Cash Floats and Advances	Fair value	421	421

Current Portion of Long-term Receivables

Staff Related Long Term Receivables	Amortised cost	3,000	3,000
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SUMMARY OF FINANCIAL ASSETS

Financial Assets at Amortised Cost:

Long-term Receivables	Staff Related Long Term Receivables	16,000	-
Receivables from Exchange Transactions	Electricity	32,434,811	21,331,364
Receivables from Exchange Transactions	Refuse	1,602,661	(263,311)
Receivables from Exchange Transactions	Sewerage	2,320,953	1,833,644
Receivables from Exchange Transactions	Other Service Charges	1,079,398	14,969,536
Receivables from Exchange Transactions	Water	10,841,381	7,710,665
Receivables from Exchange Transactions	Housing Selling Scheme	-	1,350
Receivables from Exchange Transactions	Other Debtors	140,060	1,168
Receivables from Exchange Transactions	Prepayments and Advances	5,183,016	2,730,843
Receivables from Exchange Transactions	Control, Clearing and Interface Accounts	490,922	518,922
Receivables from Non-exchange Transactions	Property Rates	20,056,493	19,826,082
Receivables from Non-exchange Transactions	Insurance Claims	-	(197,344)
Receivables from Non-exchange Transactions	Fines	11,066,356	5,620,106
Receivables from Non-exchange Transactions	LGSETA Interns	(0)	1,216,938
Current Portion of Long-term Receivables	Staff Related Long Term Receivables	3,000	3,000
Cash and Cash Equivalents	Call Deposits	200,626,600	90,054,858
Cash and Cash Equivalents	Bank Balances	13,600,946	4,259,846
		<u>299,462,598</u>	<u>169,617,667</u>
Financial Assets at Fair Value:			
Cash and Cash Equivalents	Cash Floats and Advances	421	421
		<u>421</u>	<u>421</u>
Total Financial Assets		<u>299,463,019</u>	<u>169,618,088</u>

FINANCIAL LIABILITIES:

In accordance with GRAP 104.13 the Financial Liabilities of the municipality are classified as follows:

<u>Financial Liabilities</u>	<u>Classification</u>		
Long-term Liabilities			
Development Bank of South Africa	Amortised cost	15,090,290	23,087,100
Finance Lease Liability	Amortised cost	1,264,119	513,296
Payables from Exchange Transactions			
Advance Payments	Amortised cost	14,956,402	16,129,451
Bonus	Amortised cost	-	(86,664)
Other Payables	Amortised cost	12,440,768	8,524,007
Retentions	Amortised cost	2,539,496	2,743,214
Salary Related Payables	Amortised cost	695,462	559,307
Trade Creditors	Amortised cost	53,335,629	98,656,883
Current Portion of Long-term Liabilities			
Development Bank of South Africa	Amortised cost	7,998,872	7,179,508
Finance Lease Liability	Amortised cost	1,067,666	1,764,527

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SUMMARY OF FINANCIAL LIABILITIES

Financial Liabilities at Amortised Cost:

Long-term Liabilities	Development Bank of South Africa	15,090,290	23,087,100
Long-term Liabilities	Finance Lease Liability	1,264,119	513,296
Payables from Exchange Transactions	Advance Payments	14,956,402	16,129,451
Payables from Exchange Transactions	Bonus	-	(86,664)
Payables from Exchange Transactions	Other Payables	12,440,768	8,524,007
Payables from Exchange Transactions	Retentions	2,539,496	2,743,214
Payables from Exchange Transactions	Salary Related Payables	695,462	559,307
Payables from Exchange Transactions	Trade Creditors	53,335,629	98,656,883
Current Portion of Long-term Liabilities	Development Bank of South Africa	7,998,872	7,179,508
Current Portion of Long-term Liabilities	Finance Lease Liability	1,067,666	1,764,527
		<u>109,388,705</u>	<u>159,070,630</u>
Total Financial Liabilities		<u>109,388,705</u>	<u>159,070,630</u>

47.2 Fair Value

The following methods and assumptions were used to estimate the Fair Value of each class of Financial Instrument for which it is practical to estimate such value:

Cash

The carrying amount approximates the Fair Value because of the short maturity of these instruments.

Long-term Investments

The Fair Value of some Investments are estimated based on quoted market prices of those or similar investments. Unlisted Equity Investments are estimated using the discounted cash flow method.

Loan Receivables/Payables

Interest-bearing Borrowings and Receivables are generally at interest rates in line with those currently available in the market on a floating-rate basis, and therefore the Fair Value of these Financial Assets and Liabilities closely approximates their carrying values. Fixed interest-rate instruments are fair valued based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Trade and Other Receivables/Payables

The Fair Value of Trade and Other Payables is estimated at the present value of future cash flows.

The management of the municipality is of the opinion that the carrying value of Trade and Other Receivables recorded at amortised cost in the Annual Financial Statements approximate their fair values. The Fair Value of Trade Receivables were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the current payment ratios of the municipality's debtors.

Other Financial Assets and Liabilities

The Fair Value of Other Financial Assets and Financial Liabilities (excluding Derivative Instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Long-term Liabilities

The Fair Value of Long-term Liabilities was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.

Management considers the carrying amounts of Financial Assets and Financial Liabilities recorded at amortised cost in the Annual Financial Statements to approximate their Fair Values on 30 June 2019, as a result of the short-term maturity of these assets and liabilities.

The Fair Values of Financial Assets and Financial Liabilities, together with the carrying amounts shown in the Statement of Financial Position, are as follows:

	30 June 2019		30 June 2018	
	Carrying Amount R	Fair Value R	Carrying Amount R	Fair Value R
FINANCIAL ASSETS				
Measured at Amortised Cost:	299,462,598	299,462,598	169,617,667	169,617,667
Long-term Receivables	16,000	16,000	-	-
Receivables from Exchange Transactions	54,093,203	54,093,203	48,834,181	48,834,181
Receivables from Non-exchange Transactions	31,122,849	31,122,849	26,465,782	26,465,782
Current Portion of Long-term Receivables	3,000	3,000	3,000	3,000
Call Deposits	200,626,600	200,626,600	90,054,858	90,054,858
Bank Balances	13,600,946	13,600,946	4,259,846	4,259,846
Measured at Fair Value	421	421	421	421
Cash and Cash Equivalents	421	421	421	421
Total Financial Assets	<u>299,463,019</u>	<u>299,463,019</u>	<u>169,618,088</u>	<u>169,618,088</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

FINANCIAL LIABILITIES

Measured at Amortised Cost:

	109,388,705	109,388,705	159,070,630	159,070,630
Development Bank of South Africa	15,090,290	15,090,290	23,087,100	23,087,100
Finance Lease Liability	1,264,119	1,264,119	513,296	513,296
-Payables from Exchange Transactions	83,967,757	83,967,757	126,526,199	126,526,199
-Current Portion of Long-term Liabilities	9,066,539	9,066,539	8,944,035	8,944,035
Bank Overdraft	-	-	-	-
Total Financial Liabilities	109,388,705	109,388,705	159,070,630	159,070,630
Total Financial Instruments	190,074,314	190,074,314	10,547,458	10,547,458
Unrecognised Gain / (Loss)		-		-

No Financial Instruments of the municipality have been reclassified during the year.

Assumptions used in determining Fair Value of Financial Assets and Financial Liabilities

The table below analyses Financial Instruments carried at Fair Value at the end of the reporting period by the level of fair-value hierarchy as required by GRAP 104. The different levels are based on the extent to which quoted prices are used in the calculation of the Fair Value of the Financial Instruments. The levels have been defined as follows:

Level 1:-

Fair Values are based on quoted market prices (unadjusted) in active markets for an identical instrument.

Level 2:-

Fair Values are calculated using valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3:-

Fair Values are based on valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. Also, this category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

47.3 Capital Risk Management

The municipality manages its capital to ensure that the municipality will be able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and equity balance. The municipality's overall strategy remains unchanged from 2018.

The capital structure of the municipality consists of debt, which includes Cash and Cash Equivalents and Equity, comprising Funds, Reserves and Accumulated Surplus as disclosed in Note 20 and the Statement of Changes in Net Assets.

	2019 R	2018 R
Gearing Ratio		
The gearing ratio at the year-end was as follows:		
Debt	25,420,948	32,544,431
Net Debt	<u>25,420,948</u>	<u>32,544,431</u>
Equity	<u>2,215,786,541</u>	<u>2,100,836,677</u>
Net debt to equity ratio	<u>1.15%</u>	<u>1.55%</u>

Debt is defined as Long-term Liabilities, together with its Short-term Portion.

Equity includes all Funds and Reserves of the municipality, disclosed as Net Assets in the Statement of Financial Performance and Net Debt as described above.

47.4 Financial Risk Management Objectives

The Accounting Officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial Instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, Financial Assets and Liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Department Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

Further quantitative disclosures are included throughout these Annual Financial Statements.

47.5 Significant Risks

It is the policy of the municipality to disclose information that enables the user of its Annual Financial Statements to evaluate the nature and extent of risks arising from Financial Instruments to which the municipality is exposed on the reporting date.

The municipality has exposure to the following risks from its operations in Financial Instruments:

- Credit Risk;
- Liquidity Risk; and
- Market Risk.

Risks and exposures are disclosed as follows:

Market Risk

Market Risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality's income or the value of its holdings in Financial Instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Credit Risk

Credit Risk is the risk of financial loss to the municipality if a customer or counterparty to a Financial Instrument fails to meet its contractual obligations and arises principally from the municipality's receivables from customers and investment securities.

Liquidity Risk

Liquidity Risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its Financial Liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

Liquidity Risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

A maturity analysis for Financial Liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in Note 47.7 to the Annual Financial Statements.

47.6 Market Risk

The municipality's activities expose it primarily to the financial risks of changes in interest rates (see Note 47.7 below). No formal policy exists to hedge volatilities in the interest rate market.

There has been no change to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

47.6.1 Foreign Currency Risk Management

The municipality's activities do not expose it to the financial risks of foreign currency and therefore has no formal policy to hedge volatilities in the interest rate market.

47.6.2 Interest Rate Risk Management

Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve months are made.

Consumer Debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy. Consumer Deposits are increased accordingly.

Long-term Receivables and Other Debtors are individually evaluated annually at Balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality is not exposed to credit interest rate risk as the municipality has no borrowings.

The municipality's exposures to interest rates on Financial Assets and Financial Liabilities are detailed in the Credit Risk Management section of this note.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Interest Rate Sensitivity Analysis

The sensitivity analysis has been determined based on the exposure to interest rates at the Statement of Financial Position date. The analysis is prepared by averaging the amount of the investment at the beginning of the financial year and the amount of the investment at the end of the financial year. A 100 basis point increase or decrease was used, which represents management's assessment of the reasonably possible change in interest rates. The short and long-term financial instruments at year-end with variable interest rates are set out in Note 47.7 below:

Cash and Cash Equivalents:

If interest rates had been 100 basis points higher / lower and all other variables were held constant, the municipality's:

- Surplus for the year ended 30 June 2019 would have increased / decreased by R1,542,711 (30 June 2018: R892,882). This is mainly attributable to the municipality's exposure to interest rates on its variable rate investments.

47.7 Credit Risk Management

Credit Risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

Investments/Bank, Cash and Cash Equivalents

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve months are made.

Trade and Other Receivables

Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and electricity services rendered to them.

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

- The application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property;
- A new owner is advised, prior to the issue of a revenue clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount;
- The consolidation of rates and service accounts, enabling the disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA;
- The requirement of a deposit for new service connections, serving as guarantee and are reviewed annually;
- Encouraging residents to install water management devices that control water flow to households, and/or prepaid electricity meters.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an ongoing customer relationship in response to an adverse change in the circumstances of the customer in terms of the Credit Control and Debt Collection Policy.

Long-term Receivables and Other Debtors are individually evaluated annually at reporting date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

The maximum credit and interest risk exposure in respect of the relevant financial instruments is as follows:

Long-term Receivables	16,000	19,000
Receivables from Exchange Transactions	169,720,049	141,782,964
Receivables from Non-exchange Transactions	88,823,668	71,483,054
Bank, Cash and Cash Equivalents	214,227,967	94,315,125
Maximum Credit and Interest Risk Exposure	472,787,684	307,600,143

The major concentrations of credit risk that arise from the municipality's receivables in relation to customer classification are as follows:

Bank and Cash Balances		
Current Investments	200,626,600	90,054,858
Bank Accounts	13,600,946	4,259,846
Cash Equivalents	421	421
Total Bank and Cash Balances	214,227,967	94,315,125

Credit quality of Financial Assets:

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Long-term Receivables		
Group 3	16,000	19,000
Total Long-term Receivables	16,000	19,000
Receivables from Exchange Transactions		
Counterparties without external credit rating:-		
Group 2	26,375,211	45,563,313
Total Receivables from Exchange Transactions	26,375,211	45,563,313
Receivables from Non-exchange Transactions		
Group 1	11,066,356	10,522,398
Total Receivables from Non-exchange Transactions	11,066,356	10,522,398

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2019
R

2018
R

48 MULTI-EMPLOYER RETIREMENT BENEFIT INFORMATION

The municipality makes provision for post-retirement benefits to eligible councillors and employees, who belong to different pension schemes. All councillors belong to the Pension Fund for Municipal Councillors. Employees belong to a variety of approved Pension and Provident Funds as described below. These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

All of these afore-mentioned funds are multi-employer plans and are subject to either a tri-annual, bi-annual or annual actuarial valuation, details which are provided below.

Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:-

- (i) The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.
- (ii) One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.
- (iii) The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The total expense recognised in the Statement of Financial Performance of R3,083,000 (2018: R8,635,000) represents contributions payable to these plans by the municipality at rates specified in the rules of the plans. These contributions have been expensed.

The total expense recognised in the Statement of Financial Performance of R3,083,000 (2018: R8,635,000) represents contributions payable to these plans by the municipality at rates specified in the rules of the plans. As at 30 June 2019, contributions of R8 000 (30 June 2018: R8 000) due in respect of the 2018/19 (2017/18) reporting period had not been paid over to the plans. The amounts were paid over subsequent to the reporting date (see Note 45.5).

The Retirement Funds have been valued by making use of the Discounted Cash Flow method of valuation.

DEFINED BENEFIT SCHEMES

Government Employees Pension Fund (GEPF):

The scheme is subject to a tri-annual actuarial valuation. The last statutory valuation was performed as at 30 June 2006.

The statutory valuation performed as at 30 June 2006 revealed that the fund had a surplus of R0,0 (30 June 2004: deficit of R12,8) million, with a funding level of 100,0% (30 June 2004: 96,5%). The contribution rate paid by the members (7,00%) and the municipalities (13,00%) is sufficient to fund the benefits accruing from the fund in the future.

Municipal Employees Pension Fund:

The scheme is subject to a tri-annual actuarial valuation. The last statutory valuation was performed as at 28 February 2014.

The net assets available for benefits were R5 715 557 193.

The statutory valuation performed as at 28 February 2014 revealed that the net assets of the fund were R0,0 (28 February 2011: R552,8) million, with a funding level of 100,0% (28 February 2011: 107,9%). The contribution rate paid by the members (7,50%) and Council (15,00%, 18,00% and 22,00%) is not sufficient to fund the benefits accruing from the fund in the future and there is a shortfall in the future employer contribution rate of 12,80% (28 February 2011: 8,10%).

The fund is closed for membership and no new members are allowed to join the fund.

No further information could be obtained.

National Fund for Municipal Workers - Pension Fund:

The fund operates as a defined contribution fund and in terms of the rules of the fund category A and category C members contribute at a rate as agreed upon by the Local Authority and the member, subject to an absolute minimum contribution of 2% and 5% of their remuneration respectively.

Category C-Members, appointed after 1 July 2012, who are not part of the Schedule shall make monthly contributions to the Fund equal to 7.5% of their Remuneration.

The Local Authority must contribute in respect of category A and category C members such an amount as agreed between the Local Authority and the fund, subject to a minimum contribution rate of 2% and 5% of their remuneration respectively. Category B members are members who belong to both category A and C and the Local Authority must, on behalf of such members, not contribute less than 7% of their remuneration. The contribution rates stipulated above include the amount payable towards the insured risk benefits policy.

The last statutory valuation performed as at 30 June 2015 revealed that the assets of the fund amounted to R10,050,029,000 (30 June 2014 : R9,031,759,000), with funding levels of 100.42% (30 June 2014: 100.10%). The actuary certified that the assets of the fund are sufficient to cover 100.42% of the members' liabilities, also that it can be expected that the funding level of a fund of this nature will fluctuate around 100%, for example due to timing differences in investment and receipt of monies, slight mismatching of assets and liabilities and processing errors.

Joint Municipal Pension Fund (previously Transvaal Municipal Pension Fund):

The scheme is subject to a bi-annual actuarial valuation. The last statutory valuation was performed as at 30 September 2007.

The statutory valuation performed as at 30 September 2007 revealed that the fund had a surplus of R82,1 (31 December 2005: shortfall of R44,2) million, with a funding level of 123,7% (31 December 2005: unknown). The contribution rate paid by the members (9,00%) and municipalities (22,00%) has a shortfall of 0,90%, but can be covered by the available margin in the fund.

The last valuation performed for the period ended 31 March 2006 revealed that the fund had a shortfall of R205 million, with a funding level of 83%. This will be taken into account in determining future surcharges, to be met by increased employer contributions. These surcharges are as follows:

- From 1 July 2006 14%
- From 1 July 2007 17%

The above-mentioned surcharge is payable until 1 July 2010. This position will be monitored on an annual basis.

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The fund is closed for membership and no new members are allowed to join the fund.

No information could be obtained.

DEFINED CONTRIBUTION SCHEMES

Cape Joint Pension Fund:

The scheme is subject to an annual actuarial valuation which is not the responsibility of the Municipality. The last statutory valuation was performed as at 30 June 2012.

Defined Benefit Scheme

The contribution rate payable is under the defined benefit section is 27%, 9% by the members and 18% by their councils. The actuarial valuation report at 30 June 2012 disclosed an actuarial valuation amounting to R3 014 878 (2011: R2 971 150) million, with a net accumulated deficit of R18 287 (2011: R58 935) million, with a funding level of 99.4% (2011: 104.1%).

Defined Contribution Scheme

The actuarial valuation report at 30 June 2012 indicated that the defined contribution scheme of the fund is in a sound financial position, with assets amounting to R 421 900 (2011: R386 570) million, net investment reserve of R21 231 (2011: R15 285) million and a funding level of 105.3% (2011: 104.1%).

Council contribute to the Municipal Council Pension Fund, SALA Pension Fund and SAMWU National Provident Fund which are defined contribution funds. The retirement benefit fund is subject to the Pension Fund Act, 1956, with pension being calculated on the pensionable remuneration paid. Current contributions by Council are charged against expenditure on the basis of current service costs.

Cape Joint Retirement Fund:

The scheme is subject to an annual actuarial valuation which is not the responsibility of the Municipality. The last statutory valuation was performed as at 30 June 2012.

The statutory valuation performed as at 30 June 2012 revealed that the assets of the fund amounted to R10 775 599 and R546 059 (30 June 2011: R9 930,837 in total) million, with funding levels of 99.9% and 108% (2011: 100.3% and 116.9%) for the Share Account and the Pensions Account respectively. The contribution rate paid by the members (7.50%) and the municipalities (19.50%) is sufficient to fund the benefits accruing from the fund in the future.

Municipal Councillors Pension Fund:

The Municipal Councillors Pension Fund operates as a defined contribution scheme. The statutory valuation performed as at 30 June 2015 revealed that the assets of the fund amounted to R2,551,861,000 (30 June 2014 : R2,229,410,000), with funding levels of 101.08% (30 June 2014: 98.83%). The contribution rate paid by the members (13.75 %) and council (15 %) is sufficient to fund the benefits accruing from the fund in the future. The Actuary certified that the Fund was in a sound financial condition as at 30 June 2015, in that the assets of the fund were sufficient to cover the accrued service liabilities including the recommended contingency reserves in full.

The appointment of a Curator in terms of section 5(1) of the Financial Institutions (protection of funds) Act 2001 for the whole of the business of the Municipal Councillors Pension Fund was done in December 2017. Due to the provisional curatorship, a short moratorium has been placed on the payment of benefits to members/beneficiaries. In terms of the curatorship order, the Court ordered as follows: 1. The provisional Curatorship order of the 19th December 2017 is made a final; 2. The Curator shall furnish the Registrar of the Pension Fund with progress report; 3. The Curator must deliver a further progress report to the Court by no later than 31st October 2018 which report deals with the status of curatorship as at the 30th September 2018; on the curatorship once every two months;.

National Fund for Municipal Workers - Provident Fund:

The Municipal Workers Retirement Fund is a defined contribution scheme. Members contribute at a rate of not less than 7.5% of salaries, as required by the Rules. The employers contribute at a total rate of not less than 18%. From 1 July 2017, members and employers that fall under other bargaining councils or forums are not bound by the above minimum contribution rates. The statutory valuation performed as at 30 June 2017 revealed that the assets of the fund amounted to R7,720,948.000 (30 June 2011 : R6,574,75.00), with funding levels of 102.0% (30 June 2014: 111.7%). As a percentage of members' Fund Credits, the investment smoothing reserve has decreased from 5.6% to 4.9% over the valuation period. As a percentage of the market value of assets, it has decreased marginally from 4.6% to 4.4%. The Fund's assets are sufficient to cover the members' Fund Credits, the targeted levels of the risk benefits reserve and the data and processing error reserve, and an investment smoothing reserve of 4.9% of members' Fund Credits as at 30 June 2017. In addition, there is brought-forward surplus of some R152.8 million which has been allocated to former members and is awaiting payment. The Fund is therefore in a sound financial position.

None of the above mentioned plans are State Plans.

49 RELATED PARTY TRANSACTIONS

All Related Party Transactions are conducted at arm's length, unless stated otherwise.

49.1 Compensation of Related Parties

Name of Related Person	Designation	Description of Related Party Relationship	2019	2018
S. Meleni	Official	Wife of councillor Meleni	281,045	266,195

49.2 Purchases from Related Parties

The municipality bought goods from the following companies, which are considered to be Related Parties:

Company Name	Related Person	Municipal Capacity	Nature of relationship	Purchases for the Year	Purchases for the Year
Central Bridge Trading 436 CC	Z. Tshume	Official	Wife of the director	560,128	187,781
Faulkner Bouers	B. Faulkner	Official	Director is the uncle of this employees	61,200	82,250
Kwa Nandipha Catering	P. Dondashe	Official	Husband of director	28,280	41,632
Algoatime	J. Beda	Official	Husband of the director	20,100	125,458
Amahle Waste Recycling	NI Dela (Emp 1959)	Ward Committee Member	NI Dela is the director/owner of the company	7,020	30,700
Mesrazest	J Hammond	Official	Brother in Law of Director	673,940	277,230
Infraforce Africa (Pty) Ltd	E. Sekula	Official	Owner was employed at KLM	165,955	254,795
Mgqandu & Coco Trading	C. Mgqandu	Official	Husband of Director	282,247	75,480
21st Century Contractors & Transport	S. Prinsloo	Official	Wife of Director	-	39,174
GGS Engineering	J. Nhlangulela	Official	Director	234,591	-
Malubongwe General Trading (Pty) Ltd	H. U. Geleba	Official	Husband of Director	55,095	-
JZA Trading (Pty) Ltd	K. Vumazonke	Official	Niece of Director	28,600	-
Total Purchases				2,117,156	1,114,499

The transactions were concluded in full compliance with the municipality's Supply Chain Management Policy and the transactions are considered to be at arm's length.

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	2019 R	2018 R
50 CONTINGENT LIABILITIES		
Contingent Liabilities arose due to various claims brought against the Municipality. The attorneys suggested that the matters will be defended, due to the circumstances of each. The likelihood of successfully defending the claims, as well as the timing and possible costs thereof cannot be determined at this time.		
50.1 Court Proceedings:	57,030,000	34,235,243
(i) EA Plaatjies / Kouga Local Municipality: A civil litigation action has been instituted against Kouga Municipality by the Plaintiff for payment of damages relating to a diving incident at a dam in Kruisfontein, Humansdorp for an amount of R million.	12,000,000	12,000,000
(ii) Tauris Garden CC: Civil Claim for damages. Awaiting instructions with regards to appointment of quantity surveyor.	30,000	
(iii) Peter John France & Gerald Jack Friedman Trustees of The Rental Company Trust: Claim defended on behalf of Kouga. Currently preparing for trial.	4,000,000	
(iii) Nelson Mandela Bay Metropolitan Municipality alleged claim in respect of Water Consumption. NM BM instituted action against Kouga Municipality in respect of an alleged claim of approximately R41 000 000 (Forty One Million Rand) in respect of water consumption.	41,000,000	
(iv) Various claims arising from alleged negligence by the Municipality due to damages sustained by the Plaintiffs.: Civil Claim for damages. Awaiting instructions with regards to appointment of quantity surveyor.		1,735,243
(v) Various claims due to municipal administrative matters under dispute or investigation: Civil Claim for damages. Awaiting instructions with regards to appointment of quantity surveyor.		20,500,000
51 CONTINGENT ASSETS		
51.1 Insurance Claims:	197,655	1,285,896
(i) Lost / Damaged Assets: The municipality has claims outstanding against its Insurers for lost and/or damaged assets. The management believe that it is probable that the claims will be successful and that compensation of R197,655 (2018: R1,285,896) will be recovered.	197,655	1,285,896
52 IN-KIND DONATIONS AND ASSISTANCE		
The municipality did not receive any In-kind Donations and Assistance during the year under review.		
53 PRIVATE PUBLIC PARTNERSHIPS		
The municipality was not a party to any Private Public Partnerships during the year under review.		
54 COMPARATIVE FIGURES		
The comparative figures were restated as a result of the effect of the implementation of MSCOA, and Prior Period Errors (Note 42).		
55 GOING CONCERN ASSESSMENT		
Management considered the following matters relating to the Going Concern:		
(i) On 31 May 2019 the Council adopted the 2019/20 to 2021/22 Budget. This three-year Medium Term Revenue and Expenditure Framework (MTREF) to support the ongoing delivery of municipal services to residents reflected that the Budget was cash-backed over the three-year period.		
(ii) The municipality's Budget is subjected to a very rigorous independent assessment process to assess its cash-backing status before it is ultimately approved by Council.		
(iii) Strict daily cash management processes are embedded in the municipality's operations to manage and monitor all actual cash inflows and cash outflows in terms of the cash-flow forecast supporting the Budget. The cash management processes is complemented by monthly reporting, highlighting the actual cash position, including the associated risks and remedial actions to be instituted.		
(iv) As the municipality has the power to levy fees, tariffs and charges, this will result in an on-going inflow of revenue to support the on-going delivery of municipal services. Certain key financial ratios, such as liquidity, cost coverage, debtors' collection rates and creditors' payment terms are closely monitored and the necessary corrective actions instituted.		
Taking the aforementioned into account, management has prepared the Annual Financial Statements on the Going Concern Basis.		